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Daily Report

China

FBIS-CHI-95-021
Wednesday
1 February 1995

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General

U.S. Team Arrives in Pyongyang on Visit

OW3101224395 Beijing XINHUA in English
1619 GMT 31 Jan 95

[FBIS Transcribed Text] Pyongyang, January 31 (XINHUA)—A delegation from the U.S. State Department arrived here today to arrange the opening of a U.S. liaison office in the People's Democratic Republic of Korea (DPRK).

The team came as the result of a DPRK-U.S. framework agreement on the nuclear issue signed in Washington last October which calls for comprehensive normalization of mutual political and economic ties.

Under the accord, both sides agreed to set up liaison offices in each other's capitals after consular and technical issues regarding the opening of liaison offices were solved.

These issues were resolved in the latest round of DPRK-U.S. negotiations held in Washington last month, according to a report from the official KOREAN CENTRAL NEWS AGENCY today.

In the talks the two sides agreed to send their respective teams of experts to each other's capital in early 1995 to survey appropriate sites for liaison offices, the report said.

According to the framework accord, the DPRK-U.S. ties will be upgraded to ambassadorial level after other, unspecified, issues of mutual concern are dealt with.

Vietnam To Open Liaison Office in U.S.

OW0102072595 Beijing XINHUA in English
0646 GMT 1 Feb 95

[FBIS Transcribed Text] Washington, January 31 (XINHUA)—Vietnam will open Wednesday [1 February] its first liaison office in the United States since the end of the Vietnam War nearly 20 years ago, a Vietnamese spokesman said Tuesday.

Press spokesman Bham Chi told reporters that Le Van Bang, Vietnam's former ambassador to the United States, has been appointed as head of the liaison office.

The office will be housed in temporary quarters until the former South Vietnam embassy is available for use, the spokesman said.

Under an agreement signed last Saturday in Hanoi for settling diplomatic property claims left over by the war, the old embassy building in downtown Washington will be given back to Vietnam.

The United States opened its liaison office in Hanoi last weekend.

The exchange of the offices is widely seen as another major step towards gradual improvement in ties between

the two countries. U.S. President Bill Clinton lifted the 19-year-long U.S. trade embargo against Vietnam last February.

*Relations Among Five Asia-Pacific Entities Analyzed

95CM0062A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 10, 20 Oct 94 pp 2-9

[Article by Zheng Yin (6774 1377), International Economics Institute, Fudan University: "One-Power Domination of Asian Pacific Region Unlikely"—journal published by China Contemporary International Relations Institute]

[FBIS Translated Text] Objectively speaking, there are five major political forces in the Asia-Pacific region, namely China, the United States, Japan, Russia, and ASEAN, in addition to other nations or forces. There are significant differences as well as many common interests among countries in the region; divisions and conflicts coexist with extensive cooperation. This state of affairs is essentially the starting point for each nation as it develops its foreign policy. In view of the important place occupied by the five major forces in the Asia-Pacific region, their relations with one another, the roles they play, and the influence they wield will shape the future look of the region.

Relations Among China, United States, and Japan

Among the several triangular relations in the region, no doubt the United States-China-Japan triangle takes center stage as it has the most influence. General Larson, commander of U.S. forces in the Pacific, said, "Relations among the United States, Japan, and China will dominate the international arena in Asia for many years to come." Lee Kuan-yew, Singapore's elder statesman, also commented that "as the 21st century approaches, the future of Asia, and of the entire world, will all depend on the new triangular relations taking shape between the United States, China, and Japan."

What sort of relation will it be? Historically, ever since China improved relations with the United States and Japan in the 1970's, the relations of these three countries have never been an equilateral three-sided relationship. Instead, it is a triangular relationship with the U.S.-Japanese alliance as its anchor. In formulating its Asian policy, the first thing Japan or the United States considers is clearly its relations with the other, not its relations with China. In a speech outlining his vision for a "new Pacific community" in Japan last year, President Clinton said in no uncertain terms, "our relationship with Japan lies at the heart of our Pacific community policy." Successive Japanese governments have also considered the U.S.-Japanese relationship the bedrock of Japan's foreign policy. It is understandable that both

Japan and the United States set great store by their bilateral ties, the result of the special relationship that the two countries have forged after the war. The U.S.-Japanese alliance, based on the U.S.-Japan mutual defense and security treaty, intertwines the two nations' political, economic, and security interests closely. Although U.S.-Japanese relations changed in many ways after the war, the existence of the alliance has not changed, nor has the security treaty. Herein lies the essence of U.S.-Japan relations.

Will there be fundamental shifts in the U.S.-Japanese alliance? The answer is no. In terms of security, the principal *raison d'être* of the alliance during the Cold War was the strategic objective of containing the expansionist threat from the Soviet Union. Then the Soviet Union disintegrated and the Cold War came to an end. Although the Soviet threat as originally perceived has disappeared, Russia remains a superpower militarily, and the United States and Japan still feel uneasy about the direction of its future development. Unlike the Soviet Union, socialist countries in Asia have not broken up after the Cold War, but are, on the contrary, thriving. China, in particular, has seen its economy grow by leaps and bounds, its regime becoming more consolidated by the day, a development unexpected in both Washington and Tokyo. On the one hand, they have no choice but to face up to the reality of a China that is becoming ever more powerful. On the other hand, they are concerned that a powerful China would threaten their own interests. The "Chinese threat" theory so often discussed in the U.S. and Japanese presses and tossed around by some individuals in recent years is precisely an indication of this mentality.

There is also an unspoken factor: Preserving the U.S.-Japanese alliance and maintaining the security treaty should help prevent Japan from reemerging as a challenge to U.S. security. Politically speaking, the United States and Japan have favors to ask of each other. The United States hopes that an affluent Japan will take up more international obligations in the post-Cold War era to lessen the burden on itself. Accordingly, the United States supports Japan in the latter's bid to become a permanent member of the U.N. Security Council. For its part, Japan needs U.S. support and clout with its quest to raise its profile on the international stage and hasten its ascension to the status of a regional, even global, power. Economically, the United States and Japan are so interlinked and interdependent that they are virtually inseparable. The United States is Japan's largest market, the destination of most of its investment dollars, and the source of new technology and new information for Japan. Japan, on the other hand, is the largest supplier of funds for the United States, the leading importer of its products, and a key supplier of high-tech products. Between them they account for 40 percent of the world's total output. Numerous significant economic issues in the world can be solved only with increased cooperation between these two countries. Because of the myriad security, political, and economic ties linking the United

States and Japan, they share wide-ranging common interests and depend on each other not only in the Asia-Pacific region, but also worldwide. These interests and needs are the cornerstone of the long-standing and solid relations between the United States and Japan.

Common interests and mutual needs notwithstanding, there are differences, conflicts, and disputes between the United States and Japan. Despite the fact that they are both developed capitalist countries, these countries differ enormously in history, nationality, culture, political and economic systems, and geography. Nor do they pursue entirely identical national interests. As the United States declines relative to Japan, there is a trend for differences, conflicts, and friction to increase. Right now such conflicts can be divided into three broad groups. First, the United States is running a hefty trade deficit with Japan, which accounts for one-half of its annual foreign-trade gap. Successive U.S. administrations have determined that the source of the huge imbalance in U.S.-Japan trade is the closed nature of the Japanese market and vowed to pry it open. Japan, for its part, argues that the primary cause of the lopsided trade account is the uncompetitiveness of U.S. products. Given the fact that the two sides have divergent interests and see things differently, conflicts become inevitable. At a deeper level, the United States-Japan trade dispute is a reflection of the differences in their socio-political systems, national character, and culture, not simply an economic issue. The U.S.-Japan trade friction has now become a paramount issue in bilateral relations.

The second major conflict is the U.S.-Japan struggle for economic leadership in the Asia-Pacific region. Convinced of the overwhelming importance of the region for their own future economic development, both the United States and Japan consider it imperative that they achieve economic supremacy there, a goal to which both are equally committed. Japan, which has traditionally considered the Asia-Pacific region its sphere of influence, accuses the United States of overreaching itself. The United States emphasizes that it is a Pacific nation with long-standing and intimate political, economic, and security ties to the region and that the region has the utmost importance as a strategic area for the United States and must be under American leadership. As I see it, Japan has already gotten the upper hand in the battle for regional economic domination, a situation which the United States, of course, is not going to accept without opposition. The rivalry for economic supremacy in the region is expected to heat up in the years ahead.

Third, as Japan's desire to become a political power intensifies, political and diplomatic friction between the United States and Japan will also escalate. Thus far U.S.-Japan conflicts have largely been confined to the economic and trade spheres; rarely do they involve political and diplomatic issues. With the demise of the Cold War, and as Japan's economic muscle grows and its stature as an economic power becomes more entrenched, Japan's desire to secure an international standing, role,

and influence commensurate with its mighty economic clout also grows by the day. The United States does not see entirely eye to eye with Japan on the kind of role the latter should play in the world in the future. U.S. Senator John Rockefeller told a seminar jointly organized by the United States and Japan, "The United States hopes Japan will play a larger and more active role in international affairs, but not so active, however, that it deviates from the orbit of bilateral U.S.-Japan cooperation." (Footnote 1) (John Rockefeller's speech at the "International Symposium on U.S. Asian Policy" jointly organized in New York by the United States and Japan," in "Foreign Academic Exchange," No. 9, 1994) Rockefeller's remarks make it clear that the United States wants Japan to play an active role but only within the framework of U.S.-Japan cooperation. If Japan steps out of the framework, the United States may not look favorably on it. The question now is whether Japan is willing to confine its activities to the framework created by the United States. Apparently not. On the issue of Russian aid, for instance, the United States has been putting pressure on Japan to come up with more economic assistance, something Japan is unwilling to do as long as the northern territories issue remains unresolved. Concerning North Korea's nuclear weapons development program, the United States imposed sanctions even as Japan emphasized a negotiated solution. The two countries are not always on the same side of issues. Certainly, these differences so far do not involve matters of fundamental importance and remain within the tolerable range to the United States. But will U.S.-Japanese differences on other issues escalate and become as bitter as the trade deficit? Nobody is willing to bet his farm on the answer.

We can see from the above analysis that the broad trend in the development of U.S.-Japan relations for many years to come is for more cooperation, differences, conflicts, and disputes. By and large, however, there will be more cooperation than difference and conflicts. The view that conflicts and clashes between the United States and Japan will worsen over time in the post-Cold War era is not consistent with facts unless the U.S.-Japan mutual defense and security treaty is repealed and the alliance dissolved, a scenario not likely to materialize in the foreseeable future. However intense the U.S.-Japan trade dispute becomes, however loudly Japan says no to Washington, both parties draw the line at endangering the alliance. This is why the two countries in the end will always manage to reach a compromise despite their differences and friction.

There are both similarities and differences between the China policies of the United States and Japan. Both the United States and Japan recognize and attach a good deal of importance to China's role and place in the region and even the world. Both approve of China's reform and opening policy and hope to see China move in the direction of political and economic liberalization. And both are ambivalent about China's rise and growing power. On the one hand, they believe that a stable and

prosperous China will contribute to stability and development in the Asia-Pacific region and help promote trade and economic cooperation with themselves. On the other hand, they harbor all sorts of misgivings about China's growing power, worried that a resurgent China would endanger or threaten their own interests. Both the United States and Japan are prejudiced against socialist countries in one way or another, and both are at a loss when it comes to predicting the direction China may take in the future. These similarities give the two countries a common language in formulating their China policy, facilitate their dialogue on what to do about China, and strengthen their cooperation in the area.

However, since the United States and Japan differ in their position, geopolitics, and geo-economics, their strategies toward China as well as their goals and policies are not exactly the same. Generally speaking, the former tends to think more in terms of global strategy, security, and ideology in its handling of Chinese relations. Although Japan too takes global and regional factors into consideration, it is more mindful of practical interests. Japan's China policy is less tinged with idealism and less concerned with forcing China to do what it does not want to do. Instead it is more driven by reality. Prime Minister Hosokawa said Japan would not support the practice of imposing Western institutions and values on a reluctant China. After 4 June, Japan was the first nation to lift sanctions against China by resuming high-level contacts between the two nations. In October 1992, the emperor and empress of Japan paid their first, and triumphal, visit to China. All of this shows that Japan has a different approach to China from the United States.

Setbacks in its dealings with China left the United States no choice but to rethink its China policy in a major way. In September 1993 President Clinton signed an "action memo" prepared by Anthony Lake, his adviser for national security affairs, after pooling opinions from all quarters. This marked a shift in the China policy of the Clinton Administration. Stanley Roth, deputy assistant secretary of defense for Asian and Pacific affairs, explained the reason behind the change in the administration's China policy at a seminar on U.S.-China relations on 9 December 1993. He said that the Clinton Administration would introduce a brand-new "contact strategy" with regard to China in order to strengthen the dialogue and exchanges with China and end the passive reactive position which the United States had assumed in its dealings with China in recent years. Rogers listed five premises behind the China policy of the current administration: 1) China is a critically important nation, a fact not sufficiently recognized in the past few years. 2) China can be a friend or an adversary of the United States. 3) There are a number of variables in China's development which as yet remain hard to pin down. 4) Today China is no longer an enemy of the United States; Washington should try harder to turn it into an ally on international issues. 5) The U. S. government would like to see a strong, unified, and prosperous China. (Footnote

2) (In a speech at a seminar on U.S.-China relations sponsored by the National Council on U.S.-China Relations in New York on 9 December 1993, Roth said U.S.-China relations by and large can be divided into three stages. During the first stage, China allied itself with the Soviet Union in opposition to the United States. In the second stage, there was a tripartite confrontation among the three. In the third stage, tumultuous changes have occurred in Eastern Europe and the Soviet Union. The United States and China maintain a lukewarm relationship with each other, neither friend nor foe. See QIAO BAO, New York, 9 December 1993.)

After the Clinton Administration revised its China policy, high-level contacts between the two countries picked up gradually. On 19 November 1993 President Clinton joined Chairman Jiang Zemin in a summit meeting of heads of state in Seattle, signifying the beginning of better relations between the two powers in the post-Cold War era. On 26 May 1994 Clinton announced an extension of most-favored-nation treatment for China and decided to delink such treatment from the human rights issue in the future. No doubt this will help improve and develop U.S.-China relations further. Policy adjustments notwithstanding, the United States continues to put pressure on China on such issues as human rights, arms control, trade, and Taiwan. The future development of U.S.-China relations will not be smooth sailing all the way.

For its part, China has always taken great pains to develop friendly cooperative relations with the United States and Japan, not only because it has highly complementary economic and trade relations with both, but also because they are major powers with a lot of influence and responsibility for preserving regional and even global peace and stability. China sincerely hopes that the two nations—China and the United States—will first and foremost think in terms of safeguarding the friendship and common interests of the two peoples and work to build up trust, reduce meddling, further cooperation, and eschew confrontation in accordance with the spirit of the three joint communiques between the two nations, so that U.S.-China relations develop smoothly in an all-round way on a sustained basis. We believe that with the unremitting effort of the two nations' governments and peoples, friendly U.S.-China relations will certainly last from generation to generation.

At present U.S.-China-Japanese relations are on the right track, a gratifying situation welcome by other Asia-Pacific nations. One school of thought holds that there are conflicts among all three nations which each can exploit for its own gain. Exploiting conflicts is, of course, part of the stock in trade of international diplomacy, but it has its own limitations and may even backfire. For instance, a chill in U.S.-China relations may bring China and Japan closer together, but any further deterioration in U.S.-China relations will hamper the continuous development of ties between China and Japan. Kissinger said, "Good U.S.-China relations is a precondition for

long-term friendly relations between the United States and Japan and for friendly relations between China and Japan. This is a triangle. One party can abandon the other two only at great risk." (Footnote 3) (Henry Kissinger, "How to Achieve a New World Order," TIME, 14 March 1994) Kissinger said in another speech that a "close alliance must be maintained between the United States and Japan." He said, "If cooperation between the United States and Japan were to slacken off, there would be instability in Asia." Nor does he endorse the view that if the United States and China develop more intimate ties, the relations among the three would become more entangled. He said, "As I see it, these three countries must develop good relations with one another. Both U.S.-Sino and Sino-Japanese relations will improve in the next five to six years." (Footnote 4) (Kissinger, "World Order After the Cold War," speech delivered at a "Northern Territories Seminar" held in Jin Ze, Japan. Reprinted in YOMURI SHIMBUN, 27 November 1993.) Director Oksenberg of the East-West Center in the United States also took a "cautiously optimistic attitude" toward the future of the U.S.-China-Japan triangle. He told an international symposium on Asian policy in New York that China is a difficult partner in international affairs, but reality demands that Beijing, Washington, and Tokyo increase cooperation with one another. There is an interdependency among them on some matters, which makes a high-level, wide-ranging dialogue among them imperative. (Footnote 5) (Quoted in "Foreign Academic Exchange," No. 9 1994) Relations among the United States, Japan, and China are both cooperative and competitive. Cooperation and competition are not mutually exclusive; handled properly, the two can nurture each other. Provided they abide by the spirit of mutual respect and coexistence, they can build a relationship on the bedrock of shared interests and interdependency that will be lasting, positive, and stable.

Relations Among China, Russia, and United States

Relations among China, Russia, and the United States in the post-Cold War era are fundamentally different from the triangular relationship of the past that revolved around the containment of Soviet expansion. At present, the security issue of one party threatening another does not exist in the relations among the China, Russia, and the United States, so the question of who sides with whom against whom is also a non-issue. It is against this new backdrop that these three countries have been revising their policies. A new triangular relationship is shaping up among China, Russia, and the United States.

Both China and Russia are world powers and permanent members of the U.N. Security Council and share a long border. Both confront daunting tasks at home: deepening reform, opening up to the outside world, and further developing their national economies. And both want a peaceful and stable international environment that is favorable to economic development. These similarities dictate that both China and Russia make the

development of long-term friendly and cooperative relations with each other a top priority. During his visit to China in December 1992, President Yeltsin said, "China is an important partner for Russia not only in Asia but in the rest of the world as well.... Developing Sino-Russian relations occupies the top spot on Russia's diplomatic agenda." Early this year President Yeltsin sent a letter to Chairman Jiang Zemin in which he proposed elevating Sino-Russian relations to a constructive partnership geared toward the 21st century. China too takes its relations with Russia most seriously. Chairman Jiang Zemin had high praise for Yeltsin's letter when he received the visiting Russian prime minister, Chernomyrdin, on 27 May this year, noting that it is totally in line with China's own thinking about establishing a long-term, stable, and mutually beneficial relationship of friendship and cooperation between the two countries. Jiang Zemin said, "I too believe we should contemplate and handle Sino-Russian relations from a strategic high plane with our sights set on the 21st century." (Footnote 7) (RENMIN RIBAO, 28 May 1994)

Currently Sino-Russian relations are notably more stable than either U.S.-Sino relations or U.S.-Russian relations. This stability is based on their close geo-political, economic, and security ties, their mutual non-interference in internal affairs, respect for each other's sovereignty, and the fact that they see eye to eye or almost eye to eye on major international issues. It is not only in the fundamental interest of their peoples for China and Russia to further cooperation, but it will also contribute to regional and even global peace, stability, and development.

There has been highly successful cooperation between Russia and China in recent years in various areas: politics, economics and trade, science and technology, culture, and the military. The trend is that such cooperation will grow in breadth and depth, as demonstrated in the following ways. First, the two nations have settled on the basic principles underlying a "new constructive partnership." A "Sino-Russian joint communique on the basics of bilateral relations" was issued during President Yeltsin's visit to China in 1992. That was followed by the "Sino-Russian joint communique" issued when Chairman Jiang Zemin paid his first visit to Russia last September. In the latter communique, the two sides decided to establish a neighborly, friendly, mutually beneficial, and cooperative relationship on the basis of full equality and in accordance with peaceful coexistence and other principles. With their eyes set on the 21st century, they also pledged to elevate their relations to a new level, vowing to step up multilateral contacts and exchanges in a host of areas. Of special significance are mutual visits by top leaders. Yeltsin has accepted Jiang Zemin's invitation to revisit China. Prime Minister Chernomyrdin of Russia looks forward to meeting with Li Peng when the latter pays a return visit to Russia. Leaders of the Russian and Chinese legislatures have also issued invitations to one another. Second, Sino-Russian cooperation in economic affairs, trade, and

science and technology has flourished. In 1993 bilateral trade hit \$7.6 billion. China is now Russia's second largest trading partner, and Russia is China's seventh largest trading partner. The two have made further progress in scientific and technical cooperation, including military matters. Third, significant progress has been made in Sino-Russian border talks and other negotiations on mutual arms reduction along the border and strengthening mutual trust in military affairs. Both sides have indicated that they would scrupulously abide by every provision in the agreement on the eastern section of the Sino-Russian border. On 12 July their defense ministers signed an agreement on the prevention of dangerous military activities between the two sides. The document has immense importance for furthering mutual trust along the 4,000-kilometer Sino-Russian border. Chairman Jiang Zemin and President Yeltsin issued a joint statement on 3 September this year declaring that neither China nor Russia would aim its strategic nuclear weapons at each other. Fourth, China and Russia are highly interested in the exchange of economic reform experiences. Although conditions differ between the two countries and they take divergent reform directions, an exchange of experience is beneficial for both parties. Fifth, China and Russia take identical or similar positions on current major international issues, providing many opportunities and broadening the vista for constructive cooperation between the two in regional and international affairs.

Based on common interests and mutual understanding, Sino-Russian cooperation will certainly become stronger in the course of time. Needless to say, since the two nations have different circumstances, they will not see eye to eye on some issues, which is normal. Provided there is mutual respect and a common desire for coexistence, any issue can be resolved satisfactorily through discussion and dialogue.

Both China and Russia attach a good deal of importance to maintaining a stable long-term relationship of friendship and cooperation with the United States. Prompted by considerations of global strategic interests, the United States must also maintain friendly ties with these two nations. The time has come for the United States, China, and Russia to establish friendly cooperative relations with one another simultaneously. The key is that they must totally jettison and thoroughly eradicate the mentality, practices, and influence of the Cold War. New thinking, new methods, and new viewpoints must be used in the new era to interpret and handle nation-to-nation relations. There are always some people in the West who cling to outdated viewpoints and argue that it is not in the interest of the West to strengthen cooperation with Russia and China. Wudun Quantitative Economic Forecasting and Research Institute, an influential international economic consulting organization in the United States, warns, "It would hurt the interests of the United States and other Western nations to allow China and Russia to develop closer ties with each other. It is proposed that the West stop such rapprochement."

(Footnote 8) (CHAN JING SHIMBUN (Japan), 1 May 1994) This point of view, unmistakably a legacy of the Cold War, is obsolete. The reason is that intensifying cooperation between China and Russia not only will not threaten any third nation or affect cooperation either between China and the United States or between China and other Western nations, but will, on the contrary, promote such cooperation. That the development of Sino-Russian relations in recent times has been accompanied by a strengthening, not weakening, of the exchanges and cooperation between China and the United States bears full testimony to this.

Relations Among United States, Japan, and Russia

During the Cold War, the United States, Japan, and the Soviet Union were locked in a state of military confrontation amid heightened tension in the Asia-Pacific region, particularly northeast Asia. The thrust of the Soviet Asia-Pacific policy was the pursuit of military strategic parity with, and later, superiority over, the United States. To that end, the Soviet Union devoted an enormous amount of human, material, and financial resources to shoring up its military forces in the Asia-Pacific region and vying for the control of key strategic points. Among the Soviet Union's four major fleets, the Pacific fleet became the most powerful. Efforts were redoubled to expand the naval base at Camranh in Vietnam. Soviet warships moving in and out of the base posed a direct threat to the international shipping passage through the Strait of Malacca. The Soviet Union's aggressive posture prompted the United States and Japan to reciprocate in kind. In fact, the principal objective of the U.S.-Japanese alliance was to counter the expansionist threat from the Soviet Union. The United States deployed its forces in the forward position and the U.S. Pacific fleet became the most powerful fleet in the U.S. military. For its part, Japan deployed over half of its troops in its northern territories near the Soviet Union.

The United States-Japan-Soviet military confrontation lasted all the way to the mid-1980's when Gorbachev came to power and adopted a policy of rapprochement toward the United States. Only then did tension ease up in the region. Gorbachev's Vladivostok speech of July 1986 foreshadowed major changes in Soviet attitude toward the United States, marking a shift from confrontation to the search for common understanding and cooperation. Addressing the U.N. General Assembly in December 1988, Gorbachev announced that the Soviet Union would unilaterally reduce its military forces in Asia by 200,000 within 2 years and retire 16 warships currently in the Pacific fleet. In late 1989, the Soviet Union began gradually withdrawing its naval forces from Camranh Bay and the activities of its Pacific fleet were also scaled back notably. These words and deeds on the part of the Soviet Union were cautiously welcomed by the United States and Japan.

After the disintegration of the Soviet Union, President Yeltsin pursued detente with the United States, working hard to establish a "strategic partnership" with Washington. Meanwhile, he applied himself to improving

relations with Japan as well. Yeltsin's emphasis on mending fences with both countries was driven by political, economic, security, and strategic considerations. First of all, easing tension in the Far East is an indispensable element of the overhaul of Russia's external and domestic strategies. The overhaul is necessary to create a favorable environment for the shift to a new social and economic system within Russia. Second, Russia covets economic aid from Japan and looks to South Korea and Japan for funds and technology to fuel economic development in the Russian Far East. Third, Russia hopes to take advantage of the standing and influence of the United States and Japan in the region in order to play a more active role in political and economic affairs in the Asia-Pacific region and thereby build up its own standing and influence as a regional power. Fourth, the end of the Cold War may erode the foundation of the U.S.-Japanese alliance and persuade the United States to scale back its military presence in the region. Events in recent years indicate that Russia's wishes have only been partly realized; in most cases they have not come true. This has made Russia unhappy and concerned.

Why has Russia made only slow progress in mending relations with Japan and the United States in the Asia-Pacific region? Mainly because of lingering doubts in those two countries about Russia and the fact that the northern territories issue has not been resolved. Specifically, there are four reasons. First, the United States and Japan are concerned about the current situation in Russia and are uncertain about its future. It is hard to predict whether Russia would be friend or foe. In the book "Beyond Peace," his last work before his death, Nixon wrote, "Inevitably Russia will rise again. The question is whether it will be a friend of the West or an enemy." (Footnote 9) (Richard Nixon, "Beyond Peace," from an excerpt in TIME, 2 May 1994) Kissinger has similar misgivings. He said: "Today every developed industrialized nation is faced with two challenges. One, will Russia's market economy succeed? Two, will Russia be a peaceful nation by the time its market economy succeeds?" Kissinger said, "Militarily, Russia still has 30,000 nuclear warheads and 10,000 guided missiles. Russia has pursued an expansionist policy in the past. What worries one is whether it will remain reconciled to the breakup of its empire." (Footnote 10) (Kissinger, "World Order and Japan after the Cold War," in YOMURI SHIMBUN (Japan), 27 November 1993)

Second, Japan insists that the issue revolving around the four northern islands be resolved first. As long as this problem is not resolved, no major breakthrough in Japan-Russian relations is likely. At one point Yeltsin considered tackling this issue but his hands were tied by a deep division of opinion at home. Yeltsin said Japan should help Russia with economic aid first. When the Russian people's living standard goes up, he argues, it will then be easier to solve the northern islands issue. Although Japan no longer insists on the inseparability of economic aid and politics, the territories issue is still a barrier to any breakthrough in its relations with Russia.

Third, neither the United States nor Japan wants to see excessive Russian involvement in Asia-Pacific affairs. Both have historically regarded Russia as a European nation. A rise in Russia's stature and influence in the region, it is feared by both the United States and Japan, would come at their own expense. In recent years the Yeltsin government has put forward a series of ideas and suggestions with regard to the Korean issue and the creation of a multilateral security mechanism in the north-east, but was "politely rebuffed" by Washington and Tokyo in every instance. This is why. Fourth, Russia has yet to develop a clear Asian strategy and policy. Since the breakup of the Soviet Union, Russia has been preoccupied with the mess at home and sorting out relations with the Commonwealth of Independent States, Europe, and the United States. Director Sarkisov of the Center for Japanese Studies at the Institute of Oriental Studies under the Russian Academy of Sciences wrote in an article, "Russia thus far has not formulated a new Asian policy. What it is following now in this grim transitional period is a fuzzy foreign policy." (Footnote 11) (Constantin Sarkisov, "Russia Has Not Developed a New Oriental Policy," in SHIJIE ZHOUBAO (Japan), 28 June 1994)

The above-mentioned factors clearly indicate that barriers still exist to improving Russian relations with Japan and the United States, barriers which apparently cannot be removed anytime soon. Even if the northern territories issue is resolved, it remains problematic whether the United States and Japan can discard their deep-rooted views about Russia. Thus the three countries need to step up communication and increase trust before significant progress can be made in their relations.

ASEAN and the Powers

In the course of dealing with the various powers, the ASEAN states have gradually developed a set of highly unique strategies, tactics, and policies designed to protect their self-interests and promote regional stability and development. The foreign policy of ASEAN has these basic characteristics. Politically, it has good relations with every single power while remaining at some appropriate distance from all of them. In foreign economic relations, all ASEAN nations stress developing their ties with the United States, Japan, and China. Their trade with these three countries accounts for 70 percent or so of all ASEAN foreign trade. Two-thirds of direct foreign investment in ASEAN come from the United States. For historical and other national reasons, ASEAN harbors doubts about all the powers and has differences with them. Southeast Asia was occupied by Japan during World War II, so ASEAN is apprehensive about Japan returning to the old road of imperialism. Some ASEAN countries differ with China over the sovereignty of Spratly Islands. ASEAN feels uneasy about America's Asia-Pacific strategy, fearful that the group's status and influence will be diluted. ASEAN is also deeply dissatisfied with the American practice of forcing human rights

and democracy on other countries. As a result of all these issues, the ASEAN approach to handling its relations with big powers is to adhere to friendly cooperation while maintaining its independent position.

Another salient feature of ASEAN relations with the big powers is the exploitation of differences among the latter in order to preserve a regional balance. The diplomatic strategy of ASEAN is to exploit big power differences to keep them in check, at the same time hoping that such differences do not worsen excessively with unfavorable consequences for ASEAN.

ASEAN practices "big-power balance" diplomacy and does not tolerate any power dominating the region. ASEAN is acutely aware of Southeast Asia's political, economic, and strategic significance in international affairs, making it a focal point of big-power rivalry. At present the United States, Japan, and China have the most influence in the region, but they likely will be joined by Russia and India in the future. These powers do not have identical strategies and interests and are kept apart from one another by differences and conflict. By establishing normal diplomatic relations with each power and exploiting their differences and competition, ASEAN has established a mechanism of mutual checks and balances, thereby ensuring peace, stability, and development in the region.

The five political forces in the Asia-Pacific region and their complex relations have been analyzed in the preceding paragraphs. The broad picture is that all five political forces have now been drawn into an intangible web of interdependency and interaction. It is impossible for any power to dominate the Asia-Pacific region all by itself in the post-Cold War era, not the United States, not Japan, not Russia, and not China. This is because: 1) Multi-polarization has replaced bipolarization. Some people think that as the sole superpower in the world, the United States will likely play the kind of balancing act once played by England in 19th-century-Europe. Leaving aside the accuracy of such an analogy, it will not be possible for the United States to turn such a balancing act into domination over other nations. 2) Economic integration has interwoven the interests of all nations so that they now share a common destiny. Behavior injurious to the interests of other nations will ultimately endanger one's own. 3) The trend toward integration and cooperation has intensified in the Asia-Pacific region. Any practice designed to impose one's will on others will encounter condemnation and opposition and the perpetrator will be isolated. Engaging in power politics in these circumstances clearly will run into resistance and fail.

In short, the interdependency and interaction among the several forces in the region will ultimately result in some sort of a balanced and relatively stable political structure. This structure will help prevent the emergence of dominating forces and contribute to peace, stability, development, and cooperation in the Asia-Pacific region.

Political & Social**Senior Officials To Report Location When Outside Beijing***OW0102011695 Tokyo ASAHI SHIMBUN in Japanese
31 Jan 95 Morning Edition p 3*

[By Michiyoshi Isokawa]

[FBIS Translated Text] Beijing, 30 Jan—On 30 January in Beijing, an informed source in the Chinese Government has instructed all vice-minister-level officials and above to report their whereabouts when they travel outside Beijing. Several press reports have said China's supreme leader Deng Xiaoping is in a coma, and the order was probably made in connection with his health condition.

It is believed the communication order was made in preparation for an alert call for assembly in case of sudden changes in Deng Xiaoping's condition. The government, however, has not yet issued a standstill order or a standby alert. It appears the Chinese Government is still in the second stage of alert.

To celebrate the Chinese New Year (lunar New Year) on 31 January, China is now enjoying six days of holidays which started on 30 January. China watchers have been paying attention to the movement of Chinese leaders during the season of national migration.

Lu Ping, Others Issue New Year Greetings*HK0102032195 Beijing XINHUA Hong Kong Service
in Chinese 0325 GMT 31 Jan 95*

[FBIS Translated Text] Beijing, 31 January (XINHUA)—Today is China's traditional spring festival. The RENMIN RIBAO OVERSEAS EDITION carries new year's messages from Lu Ping, director of the Hong Kong and Macao Affairs Office under the State Council; Yang Taifang, president of the All-China Federation of Returned Overseas Chinese; and Zhu Kaixuan, minister of the State Education Commission; to extend their holiday greetings to Hong Kong and Macao compatriots, countrymen residing abroad and personages studying abroad, respectively.

In his message, Lu Ping says: Hong Kong will return to the motherland in two and half years. We are glad to see that there are now more and more Hong Kong compatriots who have been actively participating in various kinds of preparatory work for the stable and smooth transition of Hong Kong. After China resumes its sovereignty over Hong Kong, the broad masses of Hong Kong people will undertake the responsibility of administering Hong Kong. We hope that from now on the broad masses of Hong Kong compatriots will unite closely under the banner of loving the country and Hong Kong so as to work together to create Hong Kong's bright future.

Lu Ping adds: To realize the stable and smooth transition of Hong Kong, we must firmly and unwaveringly implement a guiding principle of mainly relying on ourselves. The British side now has stated that they are willing to return to the track of cooperation. We welcome this. In the new year, China will, as always, firmly implement the guiding principle of one country, two systems; strictly abide by Sino-British Joint Declaration; enforce the Basic Law; and work together with Hong Kong people to achieve the stable transition of Hong Kong, and the territory's long-term prosperity and stability.

In his message, Yang Taifang says: In the new year, we will continue to take serving economic construction as a focus of the work of the All-China Federation of Returned Overseas Chinese. We will fully make use of our strong points to promote exchanges and cooperation between our countrymen residing abroad and the motherland in the fields of economy, trade, science, technology, and culture. We will make new achievements in this regard. In the course of participating in and discussing government and political affairs, and speeding up the building of legal system, we will give active play to the role of the Federation of Returned Overseas Chinese, and truly protect in terms of law the rights and interests of returned overseas Chinese and their relatives, as well as our countrymen residing abroad so as to ensure that they are not encroached upon. We will vigorously strengthen the reform and development of our federation so as to build it into a "home for returned overseas Chinese and their relatives," and "home for countrymen residing abroad" which is full of vigor and vitality, and is trusted by returned overseas Chinese and their relatives, as well as countrymen residing abroad.

In his message, Zhu Kaixuan says: The Chinese Government has always regarded personages studying abroad as China's valuable assets. Our country has always taken the work of encouraging and supporting the return of personages studying abroad as a starting point of the work for them. We welcome those studying abroad to serve our country in various forms, and correspondingly have taken numerous measures in this regard. In the future, we will continue to implement our guiding principle of "supporting personages studying abroad, encouraging them to return, and letting them go and come of their own will." We will do our utmost to raise forerunners of learning branches of the younger generation, and create better conditions for our key educational, scientific and technical personnel to train cross-century outstanding talented personnel.

Wu Bangguo, Huang Ju Celebrate Spring Festival*OW3101160495 Beijing XINHUA in English
1539 GMT 31 Jan 95*

[FBIS Transcribed Text] Beijing, January 31 (XINHUA)—People all over China celebrated the first day of the Year of the Pig by the Lunar Calendar in seemingly endless variety of ways today.

Beijing, Shanghai and Tianjin, the country's three municipalities, saw joyful people jamming the streets, which were decorated with colorful ribbons, banners, red lanterns and New Year scrolls.

Senior officials of those cities extended regards to those still working in factories, farms and shops in this most important traditional holiday in China.

Wu Bangguo, a member of The Political Bureau of the Central Committee of the Chinese Communist Party, and Huang Ju, mayor of Shanghai, joined people from all walks of life in Shanghai, the largest city in China, to welcome a promising new year.

Other than food and recreation articles, flowers have been the top commodities Shanghai people have bought this year for the Spring Festival, as over 20 million flowers of 60 kinds have been sold, according to official sources.

In Beijing some families stayed at home to watch special Spring Festival television programs, some held karaoke parties and others played chess or cards. After the special dinner on the eve of the Spring Festival, some went out or made phone calls to extend festive greetings to friends, neighbors and relatives.

Today was also the 102nd birthday of Wang Shuzhen, who lives in western Beijing. In the morning she put on a new coat to meet her son, daughter-in-law, grandson and granddaughter-in-law who came to make dumplings for her.

The over [other] 70 persons older than 100 in Beijing always receive special government's greetings on their birthdays and on major holidays.

In Lanzhou, capital of northwest China's Gansu Province, more than 200 fire-fighters chose to stay on duty to guarantee the city a safe New Year.

In Urumqi, capital of northwest China's Xinjiang Uygur Autonomous Region, for the fifth year in a row over 1,000 officials cleaned the streets while sanitation workers took the day off.

In Ji'nan, capital of east China's Shandong Province, many families invited children living in orphanages to their homes for the the Spring Festival.

Traditional flower exhibitions and lantern fairs have revived in many parts of China. Residents flocked to the annual Spring Festival Lantern Fair in Chengdu, capital of southwest China's Sichuan Province, and an international tulip fair in Chongqing in central Sichuan was mobbed with people.

In the ethnic-minority regions of southwest China's Yunnan Province, young people of the Yi ethnic group proposed toasts to tourists, while on the Qinghai-Tibet Plateau, people of ethnic-minority groups staged Tibetan opera performances, horse races and variety shows.

Many major cities have banned the setting off of fire-crackers over the Spring Festival. However, in Shijiazhuang, capital of north China's Hebei Province, people have found more fun in the performance of drum bands and the sending of flowers as New Year greetings. And in Nanjing, capital of east China's Jiangsu Province, people struck a huge ancient bell to usher in an auspicious year.

In Shenyang, capital of northeast China's Liaoning Province, red lanterns were hung before thousands of houses.

The Spring Festival is the most important occasion for Chinese families to get together.

According to statistics from the Hong Kong government, about 690,000 people left Hong Kong for the mainland, while 340,000 people entered Hong Kong for family re-unions from January 26 to 29.

It is estimated that on the eve of the Lunar New Year, January 30, 180,000 people passed through the customs at Shenzhen, a special economic zone neighboring Hong Kong, which has streamlined procedures so that people could return to their hometowns as speedily as possible.

Article Views 'Permanent Cure' for Corruption

OW0102125595 Beijing XINHUA Domestic Service in Chinese 1013 GMT 23 Jan 95

[Article by reporter Hu Qinghai (5170 3237 3189): "It Is Necessary To Seek a Permanent Cure as Well as Temporary Solutions in Combating Corruption"]

[FBIS Translated Text] Beijing, 23, Jan (XINHUA)—"While trying to bring about a temporary solution through stern measures against corruption, we must strive to seek a permanent cure of the problem by improving party style and promoting clean government at a deeper level"—this was a view shared by delegates attending the Fifth Plenary Session of the Central Discipline Inspection Commission.

In the work of combating corruption, a temporary solution means focusing on tackling corrupt phenomena while a permanent cure calls for getting at the root of corruption. The two—temporary solution and permanent cure—are two aspects of a single task. Because of the spread and rampancy of certain corrupt phenomena that occurred after the Second Plenary Session of the Central Discipline Inspection Commission, which aroused strong indignation among the masses, the Central Discipline Inspection Commission put more emphasis on cracking down on malpractices and on other stopgap measures to stop the aggravation of corrupt phenomena and ameliorate acute social contradictions. This policy decision is correct and has produced good results. However, as the struggle against corruption deepens and as problems and contradictions of a deeper nature become more exposed, the task of finding a temporary solution has become more and more pressing. In light of this, we must uphold the policy of seeking a permanent cure as well as temporary solutions to the

problem. While adopting more strict and effective stopgap measures, we must intensify our efforts to effect a permanent cure.

To effect a permanent cure means relying on in-depth reform, stepping up the development of rules and regulations that meet the needs of developing a socialist market economy, and eliminating the soil and conditions for breeding corrupt phenomena. Delegates attending the plenary session held: During the period of transition from old structures to the new, many problems were caused precisely by the lack of reform measures, the shortcomings of the old system, and unsound rules and regulations. Take the case of Tang Juqiu, former president of the Hainan Provincial Construction Bank, for example. Using the loophole created by the lack of effective supervision and control over loans, he personally approved loan applications by two enterprises between 1986 and 1989. He received 23,500 yuan in bribes for these two loans. In light of this incident, the province began to implement on a trial basis a system of separating loan approval, processing, and investigation, replacing the old system of having one department or individual in control of loans. The new system—which assigns three different functional organs or three different finance officers to take charge of the approval, processing, and investigation of loans—effectively plug the loophole that leads to the abuse of power for personal gains in making loans. The delegates pointed out the need to stop structural, system, policy, rules, and procedural loopholes that breed corruption.

Effecting a permanent cure means straightening out rules and establishing systems; accelerating the enactment of laws and regulations in building clean government; and using rules and regulations to control and regulate the behavior of the vast number of workers so that the work of combating corruption will become institutionalized, standardized, and codified into laws. This is an important characteristic of the struggle against corruption in the new period. In the last two years, the central authorities have formulated two "five-article" regulations for leading cadres at or above the county (department) level to conduct duties honestly and exercise self-discipline, and they have enacted other rules and regulations promoting clean government. In addition, enactment of the "Regulations of the CPC Governing Inner-Party Supervision," the "Regulations of the CPC Governing Disciplinary Action," the "Law of the PRC on Administrative Supervision," and other basic laws and regulations are being stepped up. In the course of rectifying workstyle and handling corruption cases, many localities established and perfected rules and regulations with a clear objective in mind. These rules and regulations have played an important role in deepening the anticorruption drive.

Effecting a permanent cure means establishing and perfecting mechanisms for exercising leadership over the work of combating corruption, for carrying out the anticorruption drive, for punishing offenders, for conducting supervision and investigation, and for giving

encouragement and reward. Establishing and perfecting mechanisms for anticorruption work essentially means defining the power and responsibility of party committees, governments, special organs, and all other departments in combating corruption to ensure that the anti-corruption drive will progress steadily and become a project for the entire party and society. Take the case of Shandong for example. Shandong has proposed the establishment of a setup for combating corruption, which requires "party and government to exercise unified leadership, discipline inspection organizations to coordinate their efforts, each department to perform its duty to the best of its ability, the masses to take part in supervision, and everyone from the top down to take part in the drive." This setup is being established in the entire province.

Effecting a permanent cure also calls for strengthening education. In a greater number of cases, a twisted outlook on life and values on the part of offenders are the subjective cause of violations of law and discipline and criminal acts. Without education, the struggle against corruption lacks ideological foundation and spiritual motive force. At the plenary session, Hou Zonbin, deputy secretary of the Central Discipline Inspection Commission, pointed out: At present, we must give special emphasis to education in the spirit of plain living and hard struggle and in standing the test of faith, power, money, and favoritism. Leading cadres at all levels should all become models in conducting official duties honestly and diligently and in respecting frugality and doing solid work.

Bimonthly Launched on Study of Marxism

OW3101142395 Beijing XINHUA Domestic Service
in Chinese 0931 GMT 24 Jan 95

[JIS Translated Text] Beijing, 24 Jan (XINHUA)—"Study of Marxism" [ma ke si zhu yi yan jiu, 7456 0344 1835 0031 5030 4282 4496.] a full-size academic and theoretical bimonthly sponsored by the Marxism-Leninism and Mao Zedong Thought Institute of the China Academy of Social Sciences, recently began publication and went on sale. Based on the principle of "adherence, development, research, and creation" and with a scientific attitude of seeking truth from facts, the bimonthly discusses and expounds the basic theories of Marxism and scientific socialism, as well as their development in the contemporary world. It also discusses the theory and practice of building socialism with Chinese characteristics and looks forward to socialism's prospects in the 21st century.

*Underground Sex Industry 2.5 Billion Yuan Business

95CM0081B Hong Kong MING PAO in Chinese
10 Nov 94 p B3

[MING PAO reporter: "Expert Urges Mobilization of Private Sector to Fight Pornography"]

[FBIS Translated Excerpt] According to Chinese sexual sociologists, the sex industry on the mainland, including prostitution, the sale of sex-related services, and pornography, has become big business. Experts estimate that the sex industry is now a 2.5 billion yuan industry, enough to build five elementary schools in every county in the country.

Director Pan Suiming [3382 4840 6900] of the Institute for Sexual Sociology at China People's University told our reporter in a long-distance telephone interview that the proliferation of pornography in some localities has prompted the government to launch a large-scale campaign against pornography, gambling, and drugs, but the results have been very modest. So he thinks there is a need to reevaluate the policy and tactics. He said the idea of setting up "red light zones" in China would not work either. At a time when people are not obeying the law, most pornographic activities would still take place outside the zones.

In his opinion, the eradication of "pornography, gambling, and drugs" should involve more than the government; forces in the private sector also should be mobilized to check those activities. Take the human approach. Warn people that "pornography, gambling, and drugs" not only are evil social phenomena, but also damage inter-person relations and undermine basic trust.

Since the sex industry is underground, Pan Suiming said, one can only estimate its scale based on sample survey results. He did a questionnaire survey in three cities in south China and received 891 completed questionnaires. Among the findings are that over 130,000 people in the three municipalities and provinces had visited a prostitute and 60,000 people had engaged in prostitution.

Pan Suiming estimated sex-related services to be a 600 million yuan business and put the total sales of pornographic products at 1.9 billion yuan. According to Pan Suiming, the medical departments of 26 provinces and municipalities discovered over 180,000 cases of sexually transmitted disease in 1992. Add the cases in some large cities which did not do any reporting and the actual number was closer to 280,000. Suppose it takes just 50 yuan to treat one patient. This means 14 million yuan were spent on treating these cases in 1992 alone, and probably over 20 million yuan in 1993. [passage omitted]

***QIUSHI Urges Strengthening of Democratic Centralism**

95CM0106A Beijing QIUSHI [SEEKING TRUTH]
in Chinese No 22, 16 Nov 94 pp 10-12

[Article by Shi Zhaobin (4258 0340 1755), Xiamen Municipal Party Committee secretary: "On Adhering to and Strengthening Democratic Centralism On New Terms"]

[FBIS Translated Text] The "CPC Central Committee Resolution On Several Crucial Issues Involved in Building a Stronger Party," passed by the Fourth Plenary Session of the 14th CPC Central Committee made adhering to and strengthening democratic centralism a conspicuous issue in reinforcing the Party's organizational establishment, clearly stating the extremely crucial significance of the meaning, mission, and need to adhere to and strengthen democratic centralism on new terms. We need to make adherence to and strengthening of democratic centralism a sustained and fundamental establishment mission to be emphasized steadfastly.

1. We need to cultivate a dialectical stand, persisting in and perfecting democratic centralism while developing a market economy. Our Party was organized on the principle of democratic centralism, which we have enriched, developed, and perfected through the practice of protracted struggle. Comrade Deng Xiaoping has noted that democratic centralism is the most rational, scientific, and convenient system, contributing to both the realization of the public's basic interests and aspirations, as well as to the correct formulation and execution of the Party's line, principles, and policies, while also able to be effectively corrected when mistakes occur. Whenever we insist on and reinforce democratic centralism, there is normal order in our Party actions, with our Party's combat effectiveness growing steadily, and our Party cause developing vigorously; but whenever we relax and weaken democratic centralism, our Party's fighting power is correspondingly weakened, with our Party cause endangered.

As China is now in a new period of transition from a planned to a socialist market economy, such broad and deep social change means that we need even more to persist in and strengthen democratic centralism. For some time now, there has been talk that as a market economy means acting in accordance with the law of value to build a legal economy, it is no longer necessary to adhere to any democratic centralism. This view that puts adherence to the principle of democratic centralism in opposition to the development of a market economy is very wrong and dangerous. As development of a socialist market economy needs to occur under Party leadership and state macroeconomic regulation and control, democratic centralism as one of our Party and state's fundamental systems must absolutely not be weakened. Particularly in the course of establishing a socialist market economy, we need to mobilize all positive factors, bringing the initiative and creativity of the whole Party and the people throughout China into full play; we need to proceed with reform in a planned, orderly, and step-by-step way; we need to understand and utilize the law of objectivity through practice, establishing complete legal standards, all of which is inseparable from correct Party and state leadership in line with democratic centralism.

The Xiamen Special Economic Zone [SEZ] establishment also fully proves this point. Our SEZ is an

"advance army" for reform and opening, taking the lead in moving forward with market-oriented reform. We have always insisted on relying on democratic centralism to make democratic and scientific decisions, arouse the initiative of the Party organization and the people throughout Xiamen, and especially to implement to the letter the spirit of the center and our superiors. The essential framework of Xiamen's market economy is now initially set up, with our externally oriented economy growing rapidly, and our overall urban might ranking 10th in China, meaning that we are maintaining our leading growth momentum. There is no doubt that "holding either that a socialist market economy does not need democratic centralism through Party and state leadership, or that persisting in democratic centralism means returning to the old planned economy path, are both wrong."

2. We need to emphasize priorities and conscientiously defend central authority. As China is a developing country with a vast territory and huge population, proceeding with overall reform to open up to the outside world in all dimensions and on all levels, resolving our problem of uneven economic development to achieve overall social progress, and establishing a prosperous, powerful, democratic, and civilized socialist country, will all mean ensuring central leadership authority. We are now certainly suffering from quite severe decentralization and deviations of liberalism. Some deal with central and upper-level decisions by practicing "subordinate countermeasures to superior policies," some leading cadres act out of local and small-group interests, engaging in shortsighted behavior, and not even hesitating to infringe on state interests, and others are concerned that obeying orders means "sustaining losses." If such problems are allowed to grow, they will be bound to have an impact on the implementation of central principles and policies, severely affecting our smooth progress in socialist modernization and reform and opening.

Comrade Deng Xiaoping has pointed out that our central meaning is that the center needs to be authoritative. For reform to succeed, it must proceed in a led and orderly way. If the CPC Central Committee and State Council have no authority, the situation will be uncontrollable. The whole Party needs to serve the center, maintaining the CPC Central Committee's absolute authority and centralized leadership, to ensure that the Party's line, principles, and policies are executed, which is necessary for our Party's cause, as well as being in the best interests of our whole Party and the people throughout China. In adhering to the principle of democratic centralism at present, we need to make the preservation of central authority a prominent priority, resolving the matter conscientiously. We need conscientiously to observe democratic centralism, practicing the "four subordinations," to ensure that government orders are not impeded. We need to remain united with the CPC Central Committee ideologically, politically, and in

action, implementing the Party's basic line unwaveringly, while working creatively in practice. And we need to execute to the letter crucial CPC Central Committee decisions, while bringing our subjective dynamics into full play.

This combination of central authority and unity with the creativity and initiative of all areas means implementing the Party's democratic centralism. In recent years of SEZ building, we have unconditionally subordinated ourselves to central macroeconomic regulation and control policy, combining central industrial orientation and policy with resolution of our SEZ's lagging basic industry and infrastructure problems, and combining the central need to rectify our financial order with accelerated SEZ financial and investment system reform, thus ensuring the sustained, rapid, and sound growth of our SEZ economy. The facts prove fully that by firmly maintaining central authority, and through combining CPC Central Committee policy with our local realities, it is absolutely possible to keep local interests consistent with overall ones.

3. We need to solve problems, adhering to and perfecting a system that combines collective leadership with individual division-of-labor responsibility. Practice shows that adhering to democratic centralism and the unity of leading bodies is interrelated and mutually advantageous. Adhering to the principle of democratic centralism is the guarantee for keeping our leading bodies united, which in turn is the grounds for practicing democratic centralism. In all places and units that work well, such bodies are generally united because they have implemented democratic centralism well; but in all places where work is not going well, a crucial reason is disunity in the ranks, or in the final analysis not having implemented democratic centralism well.

Comrade Jiang Zemin has noted that Party unity, particularly among leading bodies at all levels, is the decisive link in social stability and the development of our cause. We need to make keeping leading bodies united a mission to be emphasized in adhering to and strengthening democratic centralism, fully utilizing the weapon of criticism and self-criticism, intensifying exchange, cooperation, respect, trust, and support among the members of leading bodies, reinforcing unity, and pooling our efforts, to ensure the implementation of democratic centralism. The problem of a lack of coordination in Party-government relations in certain places, departments, and enterprises is now quite glaring, due to both conceptual differences and system unsuitability, as well as factors such as unsound oversight.

Conceptually, this is due mainly to incorrect views of democratic centralism, mostly as follows: A) The "methodologists" simplistically equate democratic centralism to a work method, not holding it to be the fundamental organizational and leadership system of our Party. And they subsequently hold that as it is a work method, it can be accepted or rejected in line with practical needs, so

does not necessarily need to be adhered to. B) The "isolationists" separate democracy from centralism and collective leadership from individual division-of-work responsibility, putting them in opposition, and holding that collective leadership weakens the just established and steadily improving executive officer responsibility system. C) The "obsoletists" hold that democratic centralism is a product of our revolutionary war years, no longer suited to socialist modernization, particularly development of a market economy. D) The "partialists" hold that while democratic centralism is effective for political actions within the Party, it is unsuited to economic and social activities. Some hold that democratic centralism is a matter for the leading-organ policy sector, unrelated to enterprises. Unless we resolve these conceptual problems, it will be impossible to adhere to democratic centralism, we will be unable to practice collective leadership, our leading bodies at all levels will be weakened, and our Party's cause will suffer. So we definitely need to study ways to implement the resolution of the Fourth Plenary Session of the 14th CPC Central Committee, conscientiously resolving these conceptual problems, to provide the ideological grounds for practicing democratic centralism.

4. We need to make democratic centralism more systematized and standardized. System establishment, in contrast to the establishment of individual leadership thinking and style, is more fundamental, comprehensive, stable, and long-term. In our all-out strengthening of democratic centralism today, emphasizing system establishment, by using specific systems to standardize the behavior of organizations and cadres at all levels, is the feature of adhering to democratic centralism on new terms. Our current practice of democratic centralism suffers from many problems. But while the rise of these problems is naturally due to the thought style of leading cadres, it is even more importantly caused by lagging system establishment, with principled demands being inadequately particularized, generalities being not adequately directed, overly tedious formalities that make operations inconvenient, or inadequate and incomplete substance and unclear limits.

Particularly during our market economy development, all sorts of economic organizations have emerged in large numbers, with economic actions changing rapidly, while certain systems have persisted for decades, being unsuited to new needs, all of which means that we urgently need to take new steps in our democratic centralism system establishment. The Fourth Plenary Session of the 14th CPC Central Committee has proposed the need to draw up central and local Party committee work regulations. This is an excellent thing. We need to quickly organize our forces to start investigations and studies, analyzing the various conflicts and problems that arise in the operation of democratic centralism, aimed at market economy development needs. When the center-formulated "Work Regulations" are published, we need to promptly study them and draw up good detailed implementation rules and regulations.

Particularly as to the relations between collective leadership and individual division-of-labor responsibility, as well as between Party committees at the same level and all bodies, we need to rationalize relations and clarifying rights, responsibilities, and procedures. Meanwhile, we need to act in line with enterprise reform realities, drawing up enterprise Party committee work regulations to clarify matters, such as enterprise Party committee responsibilities, powers and obligations, as well as the substance, form, method, and procedure of their participation in enterprise decisionmaking, to ensure that the role of the enterprise Party committee is brought into full play. We also need to inventory certain existing regulations, providing more detail, streamlining, and strengthening as needed, to further reinforce, improve, and perfect them, to make democratic centralism more serviceably grounded in specificity, systematization, and standardization, and to raise the executive capability of Party committees and improve the leadership quality and level of leading bodies at all levels.

5. We need to intensify oversight by forming oversight mechanisms for democratic centralism. In recent years, as we have not been forceful enough in finding ways to ensure that democratic centralism operates normally and have not yet formed complete and effective oversight restraint forces, regulation implementation is easily subjected to all sorts of interference, with too much subjective arbitrariness. Meanwhile, our lack of strict assessment criteria, particularly for those who seriously violate the principle of democratic centralism, and our lack of the necessary penalty measures, means that our democratic centralism is executed too flexibly and not rigidly enough.

So while tightening our democratic centralism system establishment, we also need to establish oversight restraint forces to ensure that democratic centralism operates normally. A) We need to set up and perfect an oversight system. We need to clarify responsibilities, grant authority, and develop functions, to reinforce our oversight function. B) We need to set up a sound and rigorous evaluation system. We need to make the execution of democratic centralism a crucial criteria for testing the Party spirit of leading cadres at all levels, making it a major item for investigating the "merit" of leading Party-member cadres, as well as one of the key grounds for evaluating and using cadres. Moreover, we need to constantly clarify and quantify our assessment criteria, organically combining oversight with evaluation, to raise the real effectiveness of oversight. C) We need to systematize our oversight, assessment, and reward and penalty regulations. We need to use organizational and disciplinary means correctly, making rewards and penalties clear and strict, bringing the role of standardization and incentive into full play, and thus forming oversight restraint forces of oversight-assessment-reward or penalty, to ensure that democratic centralism is implemented.

Military & Public Security

Article Views Control of Firearms, Ammunition

HK3101064695 Beijing FAZHI RIBAO in Chinese
9 Jan 95 p 1

["Legal System Forum" article by Liu Renwen (0491 0088 2429): "It Is Imperative To Strengthen Control Over Firearms and Ammunition"]

[FBIS Translated Text] Firearms and ammunition are considered dangerous goods with a strong antipersonal power, and so they differ from ordinary commodities. This explains why China has always placed a strict control over firearms and ammunition, prohibiting all units and individuals from illegally possessing any kinds of guns and cartridges. Any smuggling, concealing, illegally manufacturing, transporting, selling, and purchasing, as well as any looting and robbery of firearms and ammunition all are classified as serious crimes. However, during a time when China's economic structure is shifting to a market economy and when the country is striving to step up the development of the market economy, a handful of people—driven by their desire to reap staggering economic profits—have risked their lives and have engaged in the illegal manufacturing and sales, or smuggling and trafficking of firearms and ammunition. Blinded by greed, certain nongovernmental munitions manufacturers have defied state laws and regulations by overfulfilling production and sales quotas. As a result, large amounts of illegal firearms and ammunition have scattered throughout society. Worse still, owing to the present disordered control over firearms and ammunition, as well as the unduly wide scope of munitions provision, incidents regarding the loss, looting, and robbery of firearms and ammunition have become common. This situation undoubtedly has made it easier for criminals to obtain firearms as means of crimes; as a result, an apparent increase has been registered in the total number of serious cases involving the use of guns over recent years, thus posing a grave threat to both public security and the safety of the life and property of the people. Statistics have shown that China's gun-related cases of armed homicide, robbery, and rape totalled about 3,000 in 1993, while during the first half of 1994, the number of gun-related criminal cases of all kinds went up by 38 percent over the same period the previous year. Thus it can be seen that illegal firearms and ammunition have become a major malignant tumor endangering all of society.

One major reason for the prominent problem of illegal firearms and ammunition that China currently faces is that the country's existing laws and regulations concerning both the control of munitions and the measures against gun-related crimes are imperfect and less sound, and thus can suit neither the conditions of the present situation nor the needs of future development. With the "Methods of the People's Republic of China on Firearms Control," as well as relevant clauses of the "Criminal

Law" and "Rules of Penalties Concerning Security Control" still serving as the main grounds for our efforts against both gun-related crimes and security cases involving the use of firearms, we have the feeling that our ability has "fallen short of our wishes" when facing certain new situations and new problems. This mainly takes the following forms. The first is the unclear definition of firearms: Since the original definition for "firearms" refers to guns for military use only, we are unable to subject criminals engaged in the illegal manufacture, possession, sale, and purchase of both guns for civil use and guns under state restrictions to the punishment they deserved. Second, the list of charges is not comprehensive: For example, the Criminal Law has failed to put major robberies of firearms and ammunition into the list of charges (looting and robbery of firearms and ammunition are listed as separate crimes); therefore, criminals involved in such crimes can be punished only for robbery, and as a result, the sentences they receive apparently are too light given the seriousness of their crimes. Third, the intensity of existing penalties is inadequate: For instance, those guilty of illegally carrying and keeping firearms and ammunition can be given only security penalties, while those guilty of concealing guns can be sentenced to only two years in prison. From this we can see that the existing penalties can hardly play their role as a deterrent. Fourth, out of departmental selfishness, some munitions manufacturers have arbitrarily overfulfilled their production and sales quotas; however, existing laws fail to carry explicit stipulations as to whether or not such corporate activities should be dealt with as corporate crimes. In addition, the confused control over the manufacture of firearms exercised by different sectors, the unduly wide scope of munitions provision, and the slack management over discarded firearms are all to blame.

This is the situation China now faces. Then, how is firearm control in foreign countries? It can be said that tightening control over firearms and ammunition is a common trend currently being taken by all countries around the world. Even the United States, which is swamped by illegal firearms, also adopted the "Brady Bill" in October 1993 to restrict the sale, possession, and use of firearms. On 30 August 1993, the Singapore Parliament passed an amendment to the Weaponry Law which spells out heavy punishments for gun-related crimes. For example, it was stipulated in the original law that only those guilty of armed injury would be given a death sentence, but the law has now been amended to read: As long as he opens fire, anyone found guilty of premeditated armed crimes will be sentenced to death. Moreover, countries like Canada and Malaysia also have formulated severe laws and regulations to strengthen their firearms control.

To sum up, judging by China's actual situation and by the useful experience of other countries, tightening control over firearms and ammunition can be said to be an imperative task for China to fulfill. During this process, it is true that we should work along many lines and bring

about a comprehensive improvement, yet perfecting laws and regulations governing the control of firearms and ammunition serves as an indispensable precondition and foundation for our efforts. It has been learned that the Ministry of Public Security has worked out the "Provisions of the People's Republic of China on Firearms Control (draft for examination)." By reaffirming the principle of "introducing state control over firearms management," the provisions have amended and perfected the original regulations and clauses. Amendments to the Criminal Law also are under deliberation which undoubtedly will include moves to perfect the legislation of laws against gun-related crimes. It can be predicted that with the establishment of these new laws and regulations, China's firearms control can be successfully legalized, thus playing a positive role in stabilizing order throughout society.

Beijing Holds Spring-Festival Forum with PLA Organs

SK0102084595 Beijing XINHUA Domestic Service
in Chinese 2336 GMT 28 Jan 95

[By reporter Niu Aimin (3662 1947 3046)]

[FBIS Translated Text] Beijing, 28 Jan (XINHUA)—On the afternoon of 28 January, the three People's Liberation Army (PLA) General Departments and the leading comrades of the PLA units stationed in Beijing jointly sponsored a forum in the Beijing Hall of the Great Hall of the People with leading comrades from Beijing Municipality and the Ministry of Civil Affairs to exchange festive greetings and to jointly appraise the achievements scored by the PLA units and local governments in the work of supporting the Army and giving preferential treatment to servicemen's families, as well as of supporting the government and cherishing the people in the activities of launching the Army-civilian campaign of building civilized units.

Over the past year, the entire level of the double supporting work done by the capital has been steadily upgraded thanks to the concerted efforts made by both the Armed Forces and civilians. On the eve of "1 August" Army Day, five districts and counties in Beijing—including Dongcheng district—were conferred with the title of national model units outstanding in the double supporting work. By proceeding from the characteristics of the capital, Beijing Municipality has made all-out efforts to successfully conduct patriotic education with the core of national defense education. It has generally set up lectures on national defense education among universities and middle and primary schools and opened 27 national defense education bases around Tiananmen Square, the Yuanmingyuan Ruins, and the Lugouqiao Memorial Museum of the War of Resistance Against Japan. The municipal people's government appropriated 5 million yuan of special funds last year and built two military training bases for college students in Daxing and Changping Counties. There were 100,000

personnel in the municipality who eagerly joined in the national knowledge contest of national defense and the first-grade prize winner in the contest was also the team from the municipality. In supporting the Army and making arrangements for giving special care to disabled servicemen and servicemen's families since the beginning of 1994, the municipality has readjusted and upgraded the standards of pension and subsidies for the households and family members who deserve to receive them; for the disabled revolutionary soldiers; and for the urban compulsory servicemen. The municipality properly made job arrangements for 1,264 demobilized Army officers, for 4,355 retired soldiers, and for 797 family members of servicemen. Meanwhile, more than 6,000 retired Army officers and officers who are on convalescence leave enjoyed proper treatment in politics and livelihood. Relevant departments also dealt with the difficulties encountered by 2,095 children of servicemen in entering schools and nurseries.

By regarding capital construction as their own duties, the PLA units and the armed police forces stationed in Beijing have made prominent contributions to the capital in building key projects; in rushing to deal with emergencies and conducting relief work; in safeguarding the social peace; and in building the two civilizations. The PLA units stationed in Beijing dispatched 70,000 officers and fighters last year, who joined in the capital's urban construction; 165,000 personnel who joined in the municipal afforestation activities, planted 920,000 trees, and leveled over 18,000 mu of green land. The municipality has, to date, had 1,618 civilized units and centers jointly built by the Armed Forces, the armed police forces, and civilians; as well as 300 military academies for juveniles. The PLA units selected and dispatched more than 4,000 outstanding officers and soldiers last year to their neighboring schools to assume the posts of after school activities counselors and military instructors. There were 250,000 students from universities and middle or primary schools in the municipality who joined in the military training last year.

Attending the forum were leading comrades, including Chen Xitong, secretary of the municipal party committee; Li Qiyang, mayor of the municipality; Lieutenant General Zhou Ziyu, director of the PLA General Political Department; Fan Baojun, minister of civil affairs; and Lt. Gen. Ba Zhongtan, (character TAN [6151] with its left lateral radical of YAN being replaced with REN) commander of the Chinese Armed Police Force.

Expert Analyzes Reality of Chinese 'Menace'

OW0102074095 Tokyo CHUO KORON in Japanese
Feb 95 pp 170-180

[Article by Ikuo Kayahara, chief of the Asian Region Research Office of the National Institute for Defense Studies: "Thorough Analysis of the Chinese Military Power"]

[FBIS Translated Text] Getting Rid of Ideological Theory About the PRC's Menace

In connection with the recent PRC effort to strengthen its naval force and the increase in its national defense expenditure, talks of the PRC's menace are gaining ground in the United States and Southeast Asian countries. In Japan, also, apprehension is being voiced about the PRC. For example, Professor Shigeo Hiramatsu of Kyorin University has long expressed worries about the PRC's strengthening its naval force and its advance into the open sea. Against this, Shunji Taoka, editorial staff member of ASAHI SHIMBUN, retorted in his article titled "Talks of the PRC Expansion of Military Power Is a Downright Lie" in the June 1994 issue of monthly magazine SHOKUN, by pointing out the reality of the national defense expenditure under inflationary economy and backwardness of weapons and equipment. Prof. Hiramatsu made another refutation in the August 1994 issue of SHOKUN in the article: "The PRC Military Power Is Being Strengthened." As of now, they are representative views about the PRC menace.

Although Beijing has been refuting the "talk of the PRC menace," the reality of the PRC with its gigantic size and peculiar character poses a potential threat because it is proceeding with a policy to enrich and strengthen the nation. In fact, the PRC conducted its 41st nuclear test in the autumn of 1994 in the face of world opinion and carried out a large-scale Army, Navy, and Air Force exercise under the code name of "East Sea 4," with landing operations on islands in mind. In addition, it is forecast in the United States that the PRC's economic power may exceed that of Japan in the beginning of the 21st century.

The PRC's military situation is not clear and is full of suspicions. Therefore an objective and comprehensive analysis may become necessary, without indulging in an ideological discussion of the menace. In order to bring about and enhance trust in the Asian region, it is not constructive at all to either exaggerate or underestimate the reality of the PRC military might that is expanding influence in the area.

Then, what are the realities of the PRC's menace? And what part of the PRC's military is blocking the enhancement of the effort to bring about trust in the Asian region? This article attempts rather hesitantly to throw light on the realities of the menace by summarizing five viewpoints about military factors presumed to be the source of the talk about the PRC menace.

Before going into military studies, peculiar characteristics of the PRC's military might must be summarized first of all. The PRC's military might is a colossal armed power that possesses even a military nuclear capability, and a combination of three groups: the Peoples Liberation Army [PLA], the main field army with a major duty of national defense; the local army in charge of border defense like armed police troops; and the militia that is mobilized when an emergency arises but the members are engaged in daily routines in peace time. The PLA was instrumental in the success of the revolution, as was said

"political power grows out the barrel of a gun," and has engaged in extensive functions and roles as a power structure of the powerful nation due to its meritorious contribution in founding the nation. In addition to be a powerful armed force to function for the defense of the nation, the PLA has the following two characteristics: The first is that it is an assembly of indispensable party troops in support of the dictatorial regime of the CPC. It can be said that the PLA fulfills the function of maintaining public peace against antirevolutionary activities and at the same time is an element to enforce political dictates of the Communist Party. The second is that it has the duty of production that it is engaged in traditional economic activities and that it has its own financial resources and partial ability to support itself.

In the process of carrying out the reform and open-door policy, the PRC may confront all kinds of trials at home and abroad and the military might with the PLA in the core is considered to shoulder increasingly important roles.

The PRC's Assessment of Post-Cold War Situation and National Defense Policy

The PRC has the following understanding of international situation: The post-Cold War world will become multipolar from the bipolar structure of the past and during that transition the United States, a superpower, will play a leading role in forming a new world order. As a result of the breakup of the bipolar order, the possibility of a third world war is gone and instead various contradictions that have been suppressed will erupt, and the world will see a multitude of local conflicts involving nations, territories, and regions. The frequent occurrence of local conflicts will pose a threat in the future, and the post-Cold War security will transit from "stability in tension" maintained by the nuclear fear to "turbulence in tension."

The PRC sees the situation in the post-Cold War Asia-Pacific region as the new military balance in the making as the military might of the United States and the Soviet Union recede and that the region is comparatively stable due to brisk economic activities. However, the PRC cannot get rid of alertness against the colossal military might of the United States and Russia and finds that some unstable factors still remain in the Asian region, in spite of lack of urgent threat.

With such strategic understanding, the PRC with its domestic stability and its realistic line of policy taking root now pursues a national strategy with the economic construction in the core. It has pursued the national defense policy in accordance with "a large view on the general situation" that puts priority on economic construction, and the PRC reduced to 3 million at present the strength of the PLA that had grown to nearly 5 million in the 1980's. In 1985, the PRC made a drastic change of its traditional understanding of war prospects from "a world war is inevitable" to "it can be avoided,"

and at the same time has proceeded with the modernization policy to shift the PLA under control of the CPC to a regular national defense army. Since the latter half of the 1970's in particular, relations between the United States and the PRC have improved, and the PLA to a certain degree succeeded in modernizing itself by introducing military techniques and weaponry from the West, including the United States. Its modernization program in weaponry and equipment has gained momentum after the Cold War, because it witnessed the power of high technology weapons demonstrated during the Persian Gulf War.

On the other hand, the Tiananmen Square incident and the collapse of the Soviet Union revealed the existence of serious domestic problems. The PRC is exposed to nonmilitary attacks of "war without the smoke of powder," such as human rights offensive from the United States, as a result of the Tiananmen Square incident. Because factors of domestic instability are envisaged after Deng Xiaoping's demise on top of external military threats, the PRC was compelled to adopt a comprehensive policy to safeguard its security. The present situation of the national defense modernization policy is that the PRC is compelled to take double standards that the arms are modernized and at the same time heightening ideological and political character of the PLA as the Army under the control of the CPC are sought.

Five Viewpoints of the PRC's Military

1. Viewpoint in Connection With the PRC's Huge Military Might

The core of the military might in charge of the PRC's defense is the regular army, the PLA of course, with a strength of approximately 3 million men. The PLA consists of four branches of the services—Army, Navy, Air Force, and the second artillery force that is the strategic nuclear missile unit. According to the annual report "Military Balance" of the Institute of Strategic Studies of the United Kingdom, the PRC's military power can be summarized as in Chart 1 [chart omitted].

The PRC is traditionally an Army-oriented nation, with a strength of 2.2 million men, 76 percent of the whole strength; its Army exceeds that of the United States or Russia as the largest Army in the world. This is more than six times that of the Vietnamese Army that fought against the PRC in 1979.

The main body of the Navy consists of three fleets and possesses approximately more than 2,000 warships with total displacement of about 1 million tons. It ranks the third largest in the world after the United States and Russia.

The Air Force consists of units with about 5,000 combat aircraft and antiair and airborne units. The PRC emphasizes that its Air Force has become "the world's third largest military power, capable of carrying out nearly all

kinds of air combat operations including air attacks, support, transport, reconnaissance, and antiair defense."

The PRC, however, has a vast territorial land of 9.6 million square km, 26 times that of Japan, and a population of 1.17 billion and 23,000 km-long border with 14 countries. Therefore, in spite of the large Army, the land a soldier has to defend is about four square km, larger than that of Japan or India. The soldier's ratio against the population is 0.27 percent, higher than that of Japan but lower than that of India.

On top of it, the PRC's Armed Forces face the problem of backwardness of weapons, a military quality factor, that has to be taken into consideration in the analysis of military power. After witnessing the power of high technological weapons during the Gulf war, PRC military leaders did not conceal their shock by saying, "The PRC's weapons and military technology are 20 years behind." The Navy, for example, has only 55 principal vessels, including destroyers that can operate in open seas. Their average size is 485 tons, smaller than one-tenth that of Russia's Pacific Fleet, and a majority of naval vessels are for coast guards. The Air Force's latest model combat aircraft are remodeled MiG 21's and most of the remaining aircraft are two to three generation older than the MiG 21's.

It seems to be difficult to carry out in short time modernization of the PRC's weapons which remain at a considerably low level compared to high technology weapons due to limited investment in national defense and limit of military science and technology. In particular, the "quick response units" the PRC hopes to deploy in case of local wars it anticipates to "occur frequently" are not sufficiently organized in quality and quantity.

Furthermore, there are signs that metaphysical military power including that of soldiers' morale, an important foundation of war potential of the PLA, is declining. The decline of soldiers' morale, discipline, and solidarity due to poor treatment amidst the social trends stressing the importance of economy is a factor that cannot be overlooked in evaluation of military power.

For that reason, the PRC's present military power in quality is not at a level capable to stand against the modernized armed forces of the United States or Russia. Suppose that the PRC launches an armed liberation scheme against the Republic of China, such a modern transoceanic operation will suffer a great difficulty due to a shortage of air power.

However, the PRC's military has such overwhelming war potential in Asia that neighboring countries on the continent feel relatively heavy pressure. The Vietnamese and Philippine navies do not have the military potential to independently confront the PRC Navy in the South China Sea. The PRC also possesses Asia's only nuclear war capability deployed ready for actual warfare and it has to be noted that the neighboring countries, including Japan, are within range of the PRC's missiles and all of

their means of delivery. The PRC's nuclear war capability will be dealt with later.

2. Viewpoint About National Defense Expenditure Expanding By Double-Digit Percentage

As for the PRC's national defense expenditure, Shanbogu [as published], researcher at UK's London University, made public his strong caution this spring that its actual national defense expenditure amounts to \$42 billion, about seven times what has been announced publicly. The PRC's national defense budget since 1989 has been expanding for six consecutive years by double-digit percentages against that of each previous year. As a result, the fiscal 1994 national defense budget is more than double that of fiscal 1989.

Although the PRC's national defense expenditure increased during the 1980's, its percentage of total financial outlays fell from about 16 percent in the early 1980's to about eight percent in 1986 and has been maintained at a slightly higher level, nine percent, thereafter.

The "national defense expenditure" as publicly announced is comprised mainly of expenditures for the maintenance and management of the armed forces, such as wages, food expenses, and training costs of soldiers. Because the percentage increase of the "national defense expenditure" from the previous year is considered somewhat related to inflation, the PRC's claim that the increase in the "national defense expenditure" is appropriated to guarantee the soldiers' living is somewhat understandable. However, it is an accepted theory that the publicly announced "national defense expenditure" of the PRC does not include production and procurement expenditures for weapons and equipment. In Japan, the development, manufacturing, and procurement of weapons and equipment occupy about 30 percent of the national defense expenditure. It is necessary to note, however, that in the PRC, such expenditures are separately appropriated in the form of the expenditure for economic construction.

In addition, in the case of the PRC, the armed forces have vast fixed assets of their own and manage to raise money through traditional production activities. Those activities range from agriculture for the frontline troops to raise food, hogs and poultry at farms for their own consumption, to a wide variety of business activities, including the management of coal mines and pharmaceutical plants, forwarding businesses utilizing military trucks, rentals of harbor and airport facilities, and lately even hotel management. In recent days, actual combat troops, including group armies, devote themselves to training and are restricted from participating in production activities. But economic activities by enterprises in the military have been expanded and developed to supplement the "national defense expenditures" through the massive amount of funds created by the armed forces themselves. It has also been said that foreign exchange earned through the export of weapons and so on has been reinvested in national defense modernization programs.

It is needless to say that the total investment disbursed for the PRC's national defense must include the unpublicized sources of income noted above. It is construed that the total amount is at least two to three times the amount publicly announced. But the realities have not been made public at all. Unless they are publicized and the transparency of the national defense expenditure is maintained, it is impossible to erase the underlying fear of the PRC.

3. Viewpoint on Open Sea Advance and Strengthening of the PRC's Naval Power

The PRC's advance into the open sea in recent years has been viewed with alarm as the reappearance of the traditional expansion of the Chinese sphere of influence. As a matter of fact, the PRC claims that "the oceanic territory is an inseparable part of the PRC's territory and a space indispensable for the survival and development of the Chinese people. It is the place where the PRC's strategic interests lie." The "territorial waters law" enacted in February 1992 clearly stated the territorial possession of the Spratly Islands in the South China Sea. In May 1993, the PRC installed a signpost in the Daraku [as published] Atoll, seen as a noteworthy, forceful measure demonstrating territorial possession of the South China Sea.

In addition to the PRC, four nations, including Vietnam and the ROC, lay territorial claim to the Spratly Islands and about 30 island atolls are at present actually controlled by these countries, raising territorial disputes in the South China Sea.

As the economic construction efforts currently underway are being accelerated, the PRC confronted its shortage of energy resources, thus at last becoming an oil importing country in 1993. In the background of the PRC's advance into open seas are the tasks of developing marine resources in order to carry on economic development.

In relation to the maritime advance, the PRC has given the PLA an additional duty of defending "maritime rights and interests," by defining the duty as: the PLA "must strive to shoulder more excellently than before the defense of the sovereignty of territorial land, air space, and sea of the country and maritime rights and interests."

Therefore, the PRC's navy is being strengthened as an important part of the national defense modernization program and it attempts to contribute to the expansion of the nation's maritime rights and interests as a modern navy.

In this regard, the PRC's moves to possess aircraft carriers were widely reported in the mass media, and there were also various signs that the PRC was carrying forward armaments-strengthening programs in the 1980's to break away from a coast-guard-type navy to a navy controlling adjacent seas. In recent years, it was

reported that a few larger vessels were built, and the number of vessels for amphibious operations such on supply, refueling, and personnel transport ships is increasing, in addition to the production of helicopter-bearing vessels. It is an indication that the PRC's capability of carrying out operations on the open sea and of amphibious operations with an eye on the South China Sea is being partially strengthened.

The PRC Navy's capability, however, to carry out operations on the open sea has not yet reached a full level, in terms of quantity or quality, in the 3 million square kilometers that the PRC claims as its exclusive economic zone. In particular, its anti-air defense capability on the open sea is insufficient, and the PRC's operations on the open sea remain at a limited level, indicating no immediate possibility that it can project great military power in the oceans. However, there is a historical precedent that the former Soviet navy had grown into a naval power threatening the U.S. Navy by efforts pursued for long years through the initiative of Admiral Gorshkov. Likewise, in case the PRC follows through with emphasis on further strengthening its naval power, it is possible that it will be expanded and strengthened to the level of a powerful ocean navy in the medium-to-long term.

In that case, the PRC's advance into the open sea with its strengthened naval power will not only promote conflicts over territorial water claims and a strong offensive push toward the development of marine resources, but there is also a strong possibility that it will affect the Japanese security problem involving sea lanes. It cannot be overlooked that Southeast Asian nations think that "the PRC is aiming to put under its control not only oil resources but also the sea routes by advancing into the ocean."

4. Viewpoint on the PRC's Nuclear War Capability

The PRC's nuclear war capability consists of three delivery means—missiles, bombers, and nuclear submarines. Although they fall short of the overwhelming nuclear war capabilities of the United States and Russia, a few intercontinental ballistic missiles have major U.S. and Russian cities within their range. In addition, according to the assessment of the British Strategic Institute, the PRC drastically increased its number of deployed ICBM's since 1993.

Japan has not considered the PRC's nuclear war capability an actual threat with Japan being effectively covered by the U.S. nuclear umbrella, and friendly relations between Japan and the PRC in political and economic fields have improved. But the PRC's nuclear war capability was not clear because it remained out of international control following the end of the Cold War era. Today, after the end of the Cold War, when the negotiations on nuclear disarmament and so on continue between the United States and Russia, the nuclear war capabilities of those nations with mid-level nuclear arms capacities have drawn attention and have become an important pending issue of nuclear control. But the PRC has not made any positive response.

After the end of the Cold War, the PRC conducted its 41st in a series of nuclear tests in October immediately following the test in June 1994, despite the fact that both the United States and Russia continued their moratorium on nuclear tests. The United States indicated its strong concern over the report that the test was intended to develop a light-weight warhead capable of being mounted on mobile missiles. It can be used as a warhead for a mid-range missile of 2,500 km which has Asian countries within its range. It is ominous that the PRC continues to improve and strengthen this sort of nuclear war capability.

The PRC declares that it has conducted the least number of nuclear tests among the nuclear powers and "its nuclear war capability is totally intended for self-defense." But the fact that the PRC continues its nuclear tests in such an international situation, with post-Cold War nuclear control being centrally managed by the U.S. and Russia, throws doubt on the reliability of that declaration.

The PRC's attitude toward the non-proliferation of nuclear arms has been a cause for concern. Although the PRC is opposed to nuclear proliferation by officially signing the "nuclear Nonproliferation Treaty" in the spring of 1992, Defense Minister Chi Haotian defended mounting suspicion about the DPRK's development of nuclear weapons by saying, "such reports highly exaggerate the facts." The PRC's announcement that "it will not interfere with the DPRK's domestic affairs" leaves doubt about its enthusiasm for nuclear non-proliferation.

5. Viewpoint on the PRC's Arms Transfer and Military Exchanges

In the 1980's, the PRC sought Western sources for procuring military technology, because the West imposed sanctions against the PRC following the Tiananmen Square incident, the PRC sought out non-Western sources. Thus, the PRC purchased the latest long-range Su-27 fighters from Russia; this drew attention because of indications that the PRC, which wanted to acquire advanced military technology, switched its source of procurement to Russia from the West. Following the end of the Cold War, Russia dumped the weapons of the former Soviet Union on the international market in order to earn foreign exchange. According to reports, the PRC procured MiG-31 fighters, 400 T-72M tanks with 120-mm cannons, and a variety of electronic instruments, and even employed 1,000 nuclear-related specialists.

It is a very disquieting tendency for neighboring countries that the PRC is improving the quality of its military power and is proceeding with a policy of having a close military relationship with Russia. For instance, the PRC's introduction of 150 Su-27 Flanker fighter planes led the United States to supply 150 F-16 Eagle fighter planes and anti-air "Patriot" missiles to Taiwan, inviting

a kind of cycle of armaments expansion. In relation to the PRC's advance into the South China Sea, Southeast Asian countries are being compelled to strengthen their armaments; for example, Mig-29 Fulcrum fighter planes for Malaysia, Scud missiles for Indonesia, and a helicopter-bearing aircraft carrier for Thailand.

Not only arms procurement but also military exchanges between the PRC and Russia have become so active that it is even felt that they may develop into a system of military cooperation. Recent Sino-Russian military exchanges have been active, illustrated by the signing of two military pacts negotiated during Yeltsin's visit to the PRC in 1993 and exchange of mutual visits by the two nations' fleets, in addition to the progress in the negotiations to pull their troops back from the border between the PRC and Russia. In September 1994, PRC President Jiang Zemin, who concurrently holds the post of chairman of the CPC Central Military Commission, visited Russia and declared in his joint statement on the detargeting of nuclear missiles. This sort of movement may serve the cause of improving mutual trust, but on the other hand, other Asian countries feel uneasy about the active and multidimensional military cooperation of the two giant military nations of the Eurasian continent.

Meanwhile, PRC arms exports were steadily expanding in scale during the last half of 1980's. According to data from the U.S. Arms Control and Disarmament Agency, the PRC accounted for five percent of the total amount of global arms transactions in 1988, ranking the third after the United States and Russia. After the Gulf War, the PRC's arms exports decreased drastically, but the PRC remains the largest arms supplier in Asia, with deep-rooted demand among developing nations. Because it publicly pledged to participate in the "restriction of technology transfers involving missiles," the PRC is subject to light restrictions, but it may continue the policy of actively proceeding with arms exports in the future, as seen in the export to Pakistan of M-11 ground-to-ground missiles with a range of 300 km.

Realities of Menace and Tasks Being Asked of the PRC

As seen in the five viewpoints on military trends related to the theory of the PRC menace, it is understood that they are based on certain realities that require firm countermeasures in order to safeguard regional security and to such things that the fear and worries can be relieved to a certain degree by boosting mutual trust through increased transparency.

In the first place, a large factor considered to be the base of menace of the PRC is its nuclear war capability, because it is the only country in Asia that has deployed nuclear weapons capability in readiness for actual war. Against the PRC's nuclear tests, Japan has expressed concerns with an eye on its economic assistance to the PRC, including the fourth yen-based official development aid (ODA) loan to that country, but the PRC has gone ahead with nuclear tests with the aim of strengthening its nuclear war capability. In an atmosphere

wherein security is guaranteed with the progress of nuclear disarmament talks between the United States and Russia, the PRC cannot wipe out the fear of the PRC menace among its neighboring countries if it maintains a policy of strengthening its nuclear war capability.

In relation to nuclear nonproliferation, the PRC gives out such an impression that nuclear development-related technical knowhow is exported without interruption and its response that requires an urgency is ambiguous toward the DPRK to prevent it from developing nuclear weapons. With the transition period of the nuclear Nonproliferation Treaty system is up in 1995, the PRC menace will not be relieved unless it demonstrates an active attitude of cooperation on nuclear control by putting such actions immediately into effect, including the immediate suspension of nuclear testing.

The second factor involving fears against the PRC derives from its external military exchanges, including weapons transfers from the PRC. The PRC's procurement of the latest weapons from Russia will improve the quality of PRC military power and stimulate the military balance in the process of being newly formed in the Asian region. In reality, weapons transfer is actively taking place in Asian countries, giving rise to a kind of arms race in the region. The recent expansion of military exchanges between the PRC and Russia has touched off lively military relations between the United States and the PRC. This evokes an uneasy feeling among neighboring countries that new conflicts of interest may arise among the military powers of the United States, the PRC, and Russia in the post-Cold War Northeast Asian region.

Thirdly, the PRC's advance into open seas and related strengthening of its naval power are pointed out as the factor of increased menace from the PRC in parallel with its military trend. The PRC resorted to naval battles, though small in scale, against the Vietnamese Navy on two occasions in 1974 and 1988, revolving around claims on territory and territorial waters. The historical fact is not forgotten that the PRC dares to take stern action, including use of force, in settling disputes over territory and sovereignty.

The PRC has a strong economic motive in making advances into the ocean, and recent reports held that the PRC Navy had been mobilized to guard exploration efforts involving sea-bottom oil fields. Until now, the modernization of the PRC Navy has been progressing at a slow pace. At the recent centennial marking the Sino-Japanese War, Gen. Liu Huaqing, vice chairman of the CPC Central Military Commission, reemphasized by citing war events in the history of war 100 years ago that the Navy had to be strengthened. Should the strengthening of the PRC Navy and its comprehensive mobility in the outer oceans, including the procurement of aircraft carriers, be emphatically carried out in the future, a situation requiring acute alertness will be brought about.

In addition, the future trend of increase in the PRC's expenditure for national defense may be viewed with

strong apprehension. As previously explained, there are unpublished, concealed investments in the PRC's national defense expenditure, and such apprehension cannot be cleared if the realities remain concealed. It must be pointed out that the national defense expenditure continues to increase at a far greater rate than the increases in outlays in such important fields as agriculture, and the total amount of deficit financing continues to rise by large amounts. Such facts have to be noted, because they go against the tendency for many nations to control their post-Cold War outlays for national defense. Without making public the purpose of strengthening its national defense, the PRC continues to increase the national defense budget without setting any ceiling for the future in consideration of the military. It is certainly a worrisome trend.

As for the assessment of the PRC's present military power, its present status remains unclear except that all military branches possess immense military power, leading to an undeniable uneasiness. If the realities of the military power and situation of military exercises are made public, misunderstandings may be cleared. The present PLA is mostly composed of personnel with versatile duties, and it is necessary to take into consideration the backwardness of qualitative military power and such geographical conditions that the country encompasses a wide area of territory. Therefore, as long as the U.S. military continues to be maintained in the Asian region, the present level of PRC military power, though it is overwhelming to neighboring countries, cannot be directly construed to constitute a menace in terms of its external aggression capabilities?far, this article attempted to summarize factors relating to the menace theory of the PRC, and it can be concluded that the PRC in general embraces still unstable factors against post-Cold War Asian security.

The post-Cold War situation in Asia is considered relatively stable, such an aftereffect of the Cold War as the Korean peninsula continues to exist as an unstable factor on top of the fact that a framework of security be constructed. The first thing the PRC is required to do in order to foster trust in the Asian region is to make its military open and transparent. Next comes the PRC's awareness of the breadth of influenceary power plays in the security of the Asian region. The PRC is asked to play the role of proceeding with mutual cooperation in regionally coordinating with the Asian regional countries as it expands economic mutual reliance with the Asian region. Irrespective of whatever system the PRC will adopt in the 21st century, it is unmistakable that it will remain a potential giant in the Asian region, and it is essential not remain a substantial military menace. For that purpose, it is important to make an objective analysis of the PRC's military power and respond in a composed manner based on that analysis. They will constitute an important effort in confidence building in the Asian region.

Opinions Solicited on Draft Defense Law

HK0102015295 Beijing JIEFANGJUN BAO in Chinese
5 Jan 95 p 6

[Report by ZHONGGUO JUNFA reporters Du Yongsheng (2629 3057 0524) and Xiao Fengcheng (5135 7685 1004), and staff reporter Zhang Rousang (1728 2677 2718): "Smooth Progress in Drafting Defense Law—Interview With Responsible Comrade of Defense Law Drafting Committee Office]

[FBIS Translated Text] On 10 October 1993, this newspaper and other central-level press media carried reports on the establishment and the first plenary session in Beijing of the Drafting Committee for the PRC National Defense Law. The reports immediately aroused the extensive attention of both the domestic and overseas media, and were followed closely by people from all social circles. Now that more than a year has passed, how is the progress in drafting the defense law? Bringing with us the ardent concern of all society, and particularly of the vast numbers of officers and men, just the other day we called on a comrade in charge of the Office of the National Defense Law Drafting Committee.

Over the past over four decades since the founding of the country, China has always lacked a basic law governing the field of national defense. According to a briefing given by the comrade in charge of the drafting office, the CPC Central Military Commission formally brought the drafting of China's National Defense Law into its legislative plan for the Eighth Five-Year Plan in 1992, and on 22 September 1993, the State Council and the CPC Central Military Commission approved the establishment of a Drafting Committee for the National Defense Law, and appointed as director General Chi Haotian: member of the CPC Central Military Commission, state councillor, and defense minister. This marked the beginning of legislation on the National Defense Law. National defense is a security guarantee for the survival and development of a country, and the National Defense Law is a basic law that standardizes the defense behaviors of a country. By formulating a national defense law, we can reaffirm in the form of a state will, and assure the long-term practice of all the fine traditions, as well as principles and policies China has developed through its national defense activities; can give full rein to the functions of the legal mechanism in standardizing, regulating, guaranteeing, and guiding our defense work, thus pushing forward the modernization of national defense; and can standardize China's national defense principles in a comprehensive way, establish a peace-loving image for the country in the international community, and create a sound external environment for reform and opening up. Moreover, the practice of a national defense law also can help accelerate the building of China's socialist democracy and the legal system.

However, since the drafting of China's National Defense Law is an untried endeavor, and the defense structures and legislative procedures of other countries also differ

from one another, the drafting of the defense law is proving to be extremely difficult. A primary task facing the drafting office is to collect, sort out, analyze, and study relevant materials and data with a view to providing sound theoretical, policy-related, and legal grounds for the legislation of the National Defense Law. It has been learned that over the past nearly one year, the drafters of the law have scanned several million characters of data of various kinds; consulted the files of important documents concerning the country's national defense field; edited, translated, and sorted out a large quantity of defense-related materials released by other countries; and compiled, one after another, a number of important legislative materials, including "Important Speeches of Party and State Leaders on Issues Concerning National Defense and Army Building," the "Stipulations of the CPC Central Committee, the State Council, and the CPC Central Military Commission on Policies Governing National Defense and the Army Building," the "Legal Provisions of China on National Defense and the Army Building," and the "Constitutional Provisions of Foreign Countries on Issues Concerning National Defense," thus laying a solid foundation for the drafting of the National Defense Law.

While conducting studies on various kinds of data, the drafters also have engaged in arduous and thoroughgoing legislative investigations and analyses. Since the National Defense Law covers a wide range of issues concerning the country's political, economic, military, diplomatic, scientific and technological, cultural, and educational fields, the whole process of legislation will prove to be one of constant coordinations with all sides involved. Speaking of this point, the comrade in charge of the drafting office further deliberated: "One important reason why the drafting of the National Defense Law can progress so smoothly is that the party Central Committee, the State Council, and the Central Military Commission have attached great importance to the work, while all state organs, including military establishments, have offered their full support. It can be said that we have been given the green light all the way." Composed of leading comrades from relevant State Council ministries and commissions, and from the Central Military Commission and various PLA headquarters, the Drafting Committee for the National Defense Law has exercised capable leadership over the entire drafting process. Drafting Committee Director Chi Haotian, concurrently member of the Central Military Commission and a state councillor, as well as minister defense, has paid many visits to the drafting office to acquaint himself with the progress, give detailed guidance, and help solve difficulties and problems that have cropped up during the drafting. During the process of legislative investigations and analyses, state organs and Beijing-based military units have offered their full support and coordination.

The State Planning Commission sent six comrades, including the deputy director of its Economic Mobilization Office, to attend relevant discussions and forums, at

which these comrades came up with important suggestions on a number of major issues concerning the legislation of national defense building. The Ministry of Civil Affairs provided the drafters with detailed expositions on China's past and present practices of giving special care to disabled servicemen and to the family members of revolutionary martyrs and servicemen, and of making proper arrangements for the placement of ex-servicemen. The ministry also pointed out existing problems, and offered solutions. The Ministry of Finance submitted detailed opinions and suggestions in the form of a formal reply. Undertaking respectively the tasks of studying eight subjects with relevance to the drafting of the National Defense Law, a number of military establishments handed in—as scheduled—papers of over 500,000 characters on different subjects, and many of their suggestions have been assimilated and adopted today. The drafting committee also has set up a consultation committee, inviting a number of well-known scholars and military experts to join the committee who enjoy either great academic prestige at home or rich experience in making the country's laws. Incomplete statistics have showed that during the period from early April to mid August 1994 alone, by going down into the realities of life and inviting people to the office, the drafting committee has had 34 discussions and symposiums for several hundreds of comrades involved, and has collected several hundred suggestions from the participants. An expert who had taken part in the drafting of many state laws exclaimed: "Legislative investigations and analyses at such a rapid pace, covering such a wide range, and producing so many results are still a rare scene in our country's legislative history."

The heartening and encouraging news to our readers is: On the basis of numerous expositions and studies, as well as the results of legislative investigations and analyses, and after going through five amendments, the comments-soliciting edition of the draft PRC National Defense Law has been basically completed. On 19 November 1994, the National Defense Law Drafting Committee held its third plenary session in Beijing. At the meeting, on the basis of careful and detailed studies and analyses, all committee members fully affirmed the results of the comments-soliciting edition, deeming that with its proper contents and rational structure, this edition has successfully embodied the national defense policies of the party and the state, tallied with the country's realities in national defense and army building, and reflected the basic aim of the legislation of the National Defense Law. It has been agreed that the drafting committee first submit this comments-soliciting edition to the State Council and the Central Military Commission for examination and deliberation, solicit opinions and comments from the general public, and conduct further studies and make amendments. On this basis, the drafting committee will put forward a draft law and submit it to highest organs of state power for examination according to legislative procedures.

Ever since the drafting of the National Defense Law was made public, the Army and civilians throughout the country have followed the issue with close interest, and many have put forward suggestions and reflected the requests of various sides. Taking this opportunity, the comrade in charge of the drafting office wishes to extend his heartfelt thanks, through these reporters, to all those who have concerned themselves with the drafting of the National Defense Law. Meanwhile, he also expressed hope that the vast numbers of readers, especially officers and men, can continue to show their concern and support, and can take part in the legislation of the National Defense Law.

***Article Sees Chemical Weapons as Factor in Future**

95CM0042 Beijing GUOFANG [NATIONAL DEFENSE] in Chinese No 6, 15 Oct 94

[Article by Jiang Daiao (5592 0108 2407) and Gao Guangfu (7559 0342 4395): "Chemical Weapons Will Remain Factor in Future Wars--Defense With Chemical Weapons Under High-Tech Conditions"]

[FBIS Translated Text] Chemical warfare is an important tool of modern warfare. It accomplishes its purpose through poisonous agents that intoxicate in many ways and contaminate a broad air space over a long period of time to inflict their effect by killing and incapacitating the enemy, thereby slowing down enemy action. Since its first appearance in the First World War, chemical warfare has played an important role. In modern warfare, the combination of chemical weapons with various other high-tech weapons has radically steered the attacker's use of firepower toward a battlefield situation that is favorable to him. This is the goal that is diligently pursued by the armed forces of some countries. Some militarily strong countries place a great emphasis on the effect of chemical weapon use in high-tech warfare. Besides research into the strategic use of chemical weapons in warfare, they pay even greater attention to exploring ways that chemical weapons can affect the course and conclusion of high-tech warfare. At the present time, research in new toxic agents and the storage of chemical weapons have become important topics of discussion in the armaments race among the world's hegemonist powers. Someone in the United States military has proposed using the production of dual-purpose chemical weapons as the "big stick" of "last resort" to threaten other countries. The danger of chemical warfare still exists and its role in modern warfare will be even more prominent. At the same time, with continued improvements and advances made in instruments of chemical warfare, protection from chemical weapons will become increasingly complex, and many new problems will arise regarding the contemporary problem of defense against chemical weapons.

Defense based on total time and total air space protection. Following continuous improvements in the ability of high-tech weapons to penetrate protective defenses, and based on warfare needs, modern chemical warfare will be able to be carried out under any weather conditions and in any direction. Because of the sudden and rapid nature of high-tech warfare, signs of attack are difficult to anticipate. Moreover, when the two sides both have quick mobility and strong attacking forces, changes in battlefield conditions will become urgent, and fighting is obviously stepped up, making it even more difficult to assess the enemy's situation, particularly the enemy's attempts to use chemical warfare. This poses great difficulties for an army's anti-chemical warfare efforts. As the result, the study of means to protect against modern chemical warfare must cover its use in all time zones and all air space, as well as effective defense during the whole fighting process, to assure maximum protection.

Attention to defense of industrial chemical bases. Several years ago, when a leak of toxic materials occurred in Bhopal, India, in an industrial chemical plant of a certain American corporation, this accident which shocked the world resulted in more than 2,000 deaths. This incident has provided some military strategists with a new line of thinking, which is to engage in a "chemical war" without chemical weapons. That is, to regard the enemy's chemical weapons base to some extent as being a powder keg without an attached fuse. If high technology can somehow equip this powder keg with a fuse, it can be lit and destroyed, and the resulting chemical toxicants that are released following the explosion may be used to kill enemy personnel and decimate the enemy's military bases and industrial facilities. It can be conjectured that once such a move is implemented, it will activate a chemical attack that is difficult to overcome. As a result, in high-tech warfare, it is especially important to ensure that industrial chemical bases and chemical weapon bases are not attacked, to avoid the consequences of "toxic raw materials produced by oneself hurting one's own." In studying the problem of defense and protection against chemicals, we must place the defense and protection of our own chemical industries in the fore.

Maintaining a necessary concept of the chemical threat. After World War II, the increasingly powerful capacity of chemical weapons to maim and destroy versus that of routinely used weapons has made them important tools in high-tech warfare, especially when used as strategic threats. This was most obvious in the Gulf War. When Iraq was faced with a massive attack by armies from several countries, it publicly declared: "Massive weapons of destruction and Iraq's strategic threat are awaiting those invading armies who will be routed." Iraq's President Hussein personally threatened his enemies by saying: "If Iraq is attacked, we are prepared to use any weapons, including chemical weapons." A look at the whole fighting process shows Iraq's chemical

threat eventually was not carried out. But militarily, politically, and diplomatically, it did provoke an active response. In modern warfare, for developing countries who are at a disadvantage where ordinary and routine high-tech weapons and nuclear power are concerned, the chemical threat is an effective means for them to defend against and prevent chemical warfare. Just as Ambassador Badesarnov, the USSR representative for chemical weapons reduction to the Geneva Conference on Armaments Reduction, pointed out: "The idea of the chemical

threat still exists, but after the continuous growth and dispersion of chemical weapons in the 1980's, the basic situation has changed from one between East and West to one between North and South." As a result, to achieve a basic defense against chemical weapons and be protected from them in future wars, besides effective and necessary preparations in the organizational, equipment and psychological aspects of defense against chemical attack, we must maintain the chemical threat concept to do our utmost to prevent chemical warfare.

General

Wu Bangguo Emphasizes Reforms in State Enterprises

OW0102082095 Beijing XINHUA in English
0752 GMT 1 Feb 95

[FBIS Transcribed Text] Beijing, February 1 (XINHUA)—A leading Chinese official said in an article published today that great importance should be attached to the reforms in State-owned enterprises in 1995 while furthering economic restructuring across the country.

Wu Bangguo, member of the Political Bureau of the Central Committee of the Communist Party of China, stated in his article entitled "Seek Unity of Thinking and Make State-Owned Enterprises More Successful" his views on the significance of the reforms in State-owned enterprises.

Wu, also a member of the Secretariat of the CPC Central Committee, said in his article carried by "Qiushi" (Seeking Truth), a fortnightly theoretical journal of the CPC Central Committee, in its third issue that State-owned enterprises should avoid rushing headlong into mass action copying others' examples in reforms, but should deal with different problems in different manners.

Reforms now being experimented in some State-owned enterprises must not become a mere formality, he noted. Practical measures should be taken to overcome difficulties and solve problems instead of bypassing them, Wu wrote.

The pilot reforms are expected to result in bringing about new mechanism which will make state-owned enterprises responsible for their own economic gains or losses.

The pilot reforms should also aim at the establishment of a modern enterprise system, which demarcates property rights, defines power and duty, separates government administration and enterprise management and ensures scientific management, Wu wrote.

Wu also pointed out in his article that pilot reforms in State-owned enterprises should aim at upgrading the quality of the nation's whole economy.

The article also pointed out that reforms in State-owned enterprises should limit themselves to the demarcation of property rights, but should combine structural adjustment with technological upgrading in line with the State industrial policies and technological upgrading schemes.

Technological upgrading in State-owned enterprises should be strengthened and priorities should be given to industrial sectors and enterprises with favorable development conditions.

The government should gradually be replaced by enterprises as main investors, and it should also shift the

emphasis of its administration from approving projects to issuing policy guidelines, the article explained.

*Vice Minister Views Next Stage of Enterprise Reform

95CE0188A JINGJI RIBAO in Chinese 25 Nov 94 p 5

[Article by Chen Qingtai (7115 3237 3141): "Enterprise Reform to Enter New Stage"—excerpted from speech given by author at Fujian conference on development and establishment of the modern enterprise system in state-owned large and medium-sized enterprises]

[FBIS Translated Text] Enterprise reform has always been the key link of Chinese economic system reform. China's enterprise reform has generally gone through three phases:

- The initial phase began in 1978, the basic thinking behind reform being to change the highly concentrated planned system and strengthen enterprise vitality by granting rights and relinquishing part of the profits. We adopted the profit retention system and the two stages of replacing profits with taxes.
- After the Third Plenum of the 12th CPC Central Committee, enterprise reform developed gradually. The basic thinking in reform was to promote separation of ownership rights from operating rights, and to encourage enterprises to become relatively independent commodity producers and operators. The chief measures adopted were the implementation of the "Enterprise Law" and the factory director (manager) responsibility system. Most state-owned enterprises implemented an operational contract responsibility system, while a lesser number implemented lease and joint stock systems.
- Since 1992, the "Rules for Changing the Operating System of Public Ownership Industrial Enterprises", the "Enterprise Law," and the "Rules for Monitoring the Management of State-Owned Enterprise Property" have been issued at one time or another. The Third Plenum of the 14th CPC Central Committee's "Decisions Regarding Several Problems Concerned With Establishing the Socialist Market Economy" affirmed that establishing the modern enterprise system was the direction of reform of state-owned enterprises. Successful issuance of macroeconomic system reform measures took enterprise reform to a new stage that has as its policy direction creating conditions for fair competition, with the superior winning and the inferior losing, and characterized by enterprise system change, system creation, and a supporting set of reforms from the past, including major means of reducing taxes and relinquishing some of the profits, or conducting policy regulation which is aimed at different ownership enterprises or individual enterprises.

Fifteen years of investigation and practice have brought huge changes in the image of state-owned enterprise.

There has appeared a group of enterprises with good systems, strong vitality, high efficiency, and highly reputable in both domestic and international markets. A group of entrepreneur teams has appeared that are full of professional spirit, vigorous in investigation, and good at operations. The masses of enterprise employees have continued to liberate their thinking in the practice of reform, replacing concepts, and building a definite ideological and public foundation for further reform. In this, enterprise reform has attained significant achievements.

At present, most state-owned enterprises are still in a very difficult situation, manifested chiefly in an inflexible operating system, a heavy social burden, and low economic efficiency. With rapid development of the nonstate-owned economy, with international capital coming into the Chinese market rapidly, with "rejoining GATT" near, state-owned enterprises are facing even more serious challenges in both domestic and international markets. Further reform of enterprises is a matter of urgency.

Before we establish a macromanagement system appropriate for the market economy, existing enterprise reform has significant limitations: First of all, what is emphasized for change mostly are the forms of government management of enterprise production and operating activities and divisions of production and operational rights by government, with no actual breakthrough in separating the functions of government and enterprises; second, the emphasis has been on changing the system and form of distribution to enterprises by the government, while leaving untouched the property rights management system that determines the profit distribution system; third, single items of reform have made definite progress, but a support system is still lacking.

With establishment of the socialist market economic system and change in the macromanagement system, the systemic conditions no longer exist which permit ownership components and single enterprises to carry out such means as reducing taxes and giving up part of the profits. For further reform, the thinking, methods, and measures of state-owned enterprises must make corresponding adjustments which are aimed at the market economy.

Low-level problems in enterprise reform have for the most part been resolved. But in order to continue to do state-owned enterprise reform well, we must make a start on the deep-seated problems, such as separating out the role of administration in enterprises, smoothing property rights relationships, changing operational systems, etc. At this point, enterprise reform is mutually linked to macromanagement system reform, and their mutual support and assistance constitutes the economic system reform in its entirety. Enterprises' changing their operational system will have the expected results only if there is orderly coordination of accomplishing system creation and macroeconomic support for reform.

One, Unified Planning for Doing a Good Job in State-Owned Enterprises and the State-Owned Economy

The illogical structure of the state-owned economy which has long formed the base of the planned economy is increasingly becoming apparent as the market economy comes in, and is an important reason for the inefficiency of state-owned enterprise operation. In the larger environment of the market economy, it is only by putting individual state-owned enterprises into the regional or national state-owned economy that we can find relative superiority and opportunities for development, and that the regional economy can overcome not being able to see the whole situation. By means of regulating state-owned asset allocation, which is the state-owned asset reserve, perfecting the industrial, enterprise organizational, and product mixes will we generate new productive forces and bring new vitality to the state-owned economy. We must concentrate certain human and material forces; systematically investigate state-owned large and medium-sized enterprises; conscientiously analyze the product, enterprise, and industrial mixes, and the present enterprise operational situation and asset mix; understand the generating point of regional economic growth; satisfy the need for key support by trade and enterprise; and encourage development and regulation by making strategic adjustments according to state industrial policy and regional economic development superiority. Regulating the industrial and product mixes relies chiefly on the state stipulating industrial policy and regularly issuing directive market information, and the enterprise organizational mix should be regulated on the principle of combining governmental direction and enterprise volunteerism. Structural regulation should chiefly be aimed at perfecting reserve allocation, with increased volume as the catalyst. By reorganizing asset reserves, we should make the mix more reasonable and increase the capacity of state-owned large and medium-sized enterprises that really need to be controlled by the state. After they have been reformed and remolded, they will become pillars of economic development. Reorganizing or regulating the enterprise mix must be done upon a foundation of clarifying property rights relationships and doing a good job of asset evaluation, incorporating, separating, joint venture, contracting, leasing, and sale and bankruptcy by plan. Sales income will be used as enterprise input capital to accomplish the strategic change of state-owned assets.

Two, Simultaneously Conducting Enterprise Reform and Improvement of the External Environment for Enterprises

Further enterprise reform demands continued improvement in the external environment, and calls for realization of supported reform; reform of such systems as circulation, finance and taxation, etc., also requires that enterprises accomplish system change and that each macroeconomic regulatory subject react positively to

market information signals and macroeconomic regulation. Enterprises are the base of society's productive forces. They are the subject of the macromanagement system and of adjustment by every kind of economic lever. Therefore, the connection between enterprise self reform and each supporting reform has become especially strong. This has become a major characteristic of further reform.

After accomplishing financial and taxation reform this year, the situation in which enterprise reform and reform of the social security, finance, and circulation systems mutually assist and help each other has become more significant. While comprehensively pushing reform of state-owned enterprises, we must further improve taxation reform, accelerate the process of turning specialized banks into enterprises, and fully bring tax and interest rate levers into play, establishing and improving the macroeconomic regulatory system chiefly by indirect means. We must as soon as possible establish a social security management system and speed up establishment and improvement of the social security system. As we vigorously develop the commodity market, we must try to make progress in reform of the distribution system, and enthusiastically and in a stable manner develop and perfect various kinds of markets, especially the element market, while organizing and developing those intermediary organizations which directly serve enterprises, such as trade and business associations. We must regulate the behavior of society's intermediary organizations, introducing an unrestricted responsibility system into such intermediary organizations as accounting institutes and asset evaluation organizations, to guarantee that such organizations will be neutral, objective, and fair. We must also establish and perfect a legal system that suits the socialist market economy; restricts market order; regulates government and enterprise behavior to maintain and protect the state, enterprises, and employee rights and interests; and create the necessary external environment for enterprises to change their operating system and independently go into the market.

Three, Combining Changing the Operating System With Establishing the Modern Enterprise System

Establishing the modern enterprise system is the direction of reform in state-owned enterprises, and changing their operating system is the foundation for establishing the modern enterprise system. Only when the government has changed its functions and enterprises have changed their operating systems to a certain degree will we then have the necessary conditions for regulating enterprises according to the modern enterprise system; however, only when the modern enterprise system has finally replaced the traditional state-owned enterprise will system change be in position.

What is meant by changing the operating system is to change state-owned enterprise production operations around the state plan to make enterprise operating activities more accurately reflect market information

and macroeconomic regulatory signals. Truly accomplishing this change will involve getting at many deep-seated problems in the existing system, and it will be hard to function without completely changing the traditional enterprise system. The modern enterprise has a multiple organizational form, according to property constitution and debt responsibility. In China, in circumstances where multiple economic factors develop simultaneously, the corporation system is a typical form, coexisting with such noncorporate forms of enterprise as foreign-capitalized, cooperative and joint-stock system enterprises, to form China's enterprise system. Among these, speaking of our family of enterprises, most are noncorporate system enterprises; speaking of the large and medium-sized enterprises, the corporate system is the main enterprise organization form. At present, we must emphasize building the foundation for change of the operational system while implementing trial sites for the modern enterprise systems under the precondition of urging overall "changing the system and building a new system", directed at difficulties in establishing the modern enterprise system. We should adopt the necessary measures, accomplish key breakthroughs in system creation and reform support sets, resolve focal points and difficulties which exist in enterprises, and create the conditions for widely conducting enterprise system change.

Four, Combine Reorganization of Enterprises—System Change—Replacement of Enterprises

Enterprise reorganization means accomplishing the perfected organization of state-owned enterprise asset reserves; system change means accomplishing enterprise system creation based on changing enterprise operational systems; replacement means to concentrate the input necessary for increasing the force of enterprise technological transformation.

Several decades of accumulation have given China's state-owned enterprises some strong advantages. However, in coming into the market economy, the illogical mix of state-owned enterprises, the unsuitability of operational systems, and the backward level of technology and equipment have made it difficult to maximize the role of these advantages.

The illogicality of the state-owned enterprise assets can only be resolved through structural reorganization. Improving the operating efficiency of state-owned assets of enterprises in the market economy must make fullest use of methods the market economy permits. On the one hand, let state-owned assets accomplish self protection to reduce risk; on the other hand, bring in various social resources through limited state-owned assets to expand the coverage of state-owned assets. We must take advantage of market economic operating methods; we must replace existing enterprises with the modern enterprise system to overcome the problems of lack of division between government and enterprises, a lack of clarity in the property rights responsibility system, and backwardness in enterprise organization and the directive system.

While allocation of enterprise asset reserves tends to be reasonable, the operational system is changing, making it necessary to input technology as the catalyst which will increase productive forces with less cost increase to accomplish the goal of improving market competitive forces.

In the change from the existing system to the new, implementing reorganization, replacing the system and remolding state-owned enterprises are organically combined; accomplishing system creation for enterprises, and management and technical creation in this sort of comprehensive treatment is an important way of strengthening enterprise market vitality and competitive stamina.

Five, Combine Strengthened Enterprise Management With Getting Rid of Historical Burdens

At the present time, state-owned enterprises have still not really established such encouragement and restriction systems as the superior winning and the inferior being replaced, or self-responsibility for profits and losses. Many management personnel are unchanged in their operational managerial thinking, so abnormal and short-term behavior often occurs in some enterprises, and not just in management, so that state-owned assets operate at low efficiency. Looking internally, it is still a complex and heavy mission to actually improve each item of management efficiency, such as changing operational thinking, continuing to improve and strengthen basic management inside enterprises, to make such management aspects as enterprise finance, quality control, personnel and labor policies, etc., suitable for enterprises to participate in market competition and reach the goal of improved economic efficiency.

The social responsibilities of enterprises have resulted in state-owned enterprises pursuing multiple mutually conflicting goals, while they are often in difficulty on both sides. The goal of pursuing economic efficiency is often weakened by various contradictions in reality, causing frequent disorderly behavior by enterprises and financial affairs to become increasingly murky. Such behavior frequently violates enterprises' being economic organizations, and retards enterprises from changing their operational systems and improving the efficiency of their assets utilization. If the burden of social responsibilities is not removed from enterprises, it will be hard to accomplish the operating system and modern management that is really suitable to the market economic system.

To remove these obligations from enterprises, we must stimulate the enthusiasm of enterprises, employees and especially local governments. First, separate the productive and operational parts of enterprises from the surplus staff and the social obligations in the staff constitution, fiscal affairs, and organization. Then create conditions for gradually turning public welfare organs over to society by gradually changing welfare organizations to

tertiary industries and placing them in society at large. This is a process which will not be achieved in one step. One difficulty in separation is the capacity of employees to bear it ideologically, and another is the capacity to bear it financially. Therefore, we must on the one hand increase the force of three system reform, changing employee ideas of eating from the one big pot of enterprises, while this separation takes place inside enterprises; on the other hand, government must eschew less urgent fundamental construction and other expenses, taking on the issues which government should take on. But enterprises must also be prepared to pay a certain cost in order for us to accomplish a stable separation transition.

Changing and strengthening management of enterprises cannot be a complete replacement for necessary capital input. Since 1983, the state has almost stopped capital input to enterprises, so that at present, the debt bearing rate of state-owned enterprises generally is up to around 75 percent. Burdened with low asset quality, it is hard to increase profits after paying off interest, so enterprises are very weak when it comes to remolding and developing by their own accumulation. When enterprises go to the market, we must investigate and analyze their asset debts formed through history and stipulate a corresponding policy of adjustment. For those loan losses caused by hidden enterprise losses found while checking assets, various asset losses, and force majeure natural disasters, for reasons of policy, we must clear enterprise public funds, capital funds, and bank preparation funds of unpayable debts in accordance with regulations. In the case of those historical debts which are due to "changed loan allocations" and are formed of loans to fundamental funds and there is really no way of making payment, these can be postponed or interest charges temporarily suspended. Some which have mature conditions can be changed to state investments combined with remolding of the corporation of state-owned enterprises, increasing state-owned capital funds. We must look into exchanging debts among enterprises (not including debts to financial organizations) which has been an effective measure in developing stock shareholding rights. Selecting some enterprises or cities within the scope of the state-owned economy, we must conduct one time enterprise historical debts clearance and reorganization among financial institutions, banks, and state-owned enterprises to get the debt-bearing structure of enterprises to a reasonable level. Resolution of historical debts must be implemented gradually according to the state's fiscal capacity, and this especially must be combined with changing operational systems to prevent creating new burdens as the existing burdens are removed.

With the progress of further reform, great changes are taking place in the environment facing enterprises. Confronting the new circumstances, the problems demanding our continued study are understanding the

problems, what reform methods will be best for state-owned enterprises, and what techniques would be best for state-owned enterprises in applying market economic methods.

***State Council Economists View Enterprise Reform**

95CE0203A Beijing JINGJI GONGZUO TONGXUN
[ECONOMIC WORK NEWSLETTER] in Chinese
No 21, 15 Nov 94 7-10

[Article by Ma Hong (7456 3163) and Liu Shijin (0491 0013 6930) of the State Council Development and Research Center: "Several Issues on Reforming State-Owned Enterprises"—excerpted from paper presented at symposium marking publication of the journal INDUSTRY AND ECONOMY OF CHINA and 10th anniversary of the Economic Management Publishing House]

[FBIS Translated Text] How Correctly To Understand Reform of State-Owned Property Rights System

No matter how we adjust the geographical distribution of the state-owned economic sector and where state assets are located, we will be faced with the issue of how to raise efficiency in managing state assets. However, this issue must be resolved by changing the system of managing state-owned properties. It also involves the reform of the system of property rights of state assets. From an enterprise point of view, the system of property rights constitutes the foundation of the entire enterprise system. Without smoothing out the property rights relationship, it will be difficult to straighten out other relations in the enterprise. Right now, views differ sharply on the issue of reforming the system of state-owned property rights. Some comrades are worried about this kind of reform, believing that reform of the system of property rights will eventually end up in practicing "privatization." The erosion of state-owned assets has made these comrades worry even more. Some other people also regard the reform of state-owned property rights as a process of "turning public properties into private ones." Although the aforementioned two groups of people have different starting points in dealing with this issue, their views are practically identical in believing that reform of property rights is equivalent to practicing privatization. Here is a question. Under the pre-requisite of advocating the public ownership system and practicing no privatization, is it necessary or possible to carry out the reform of property rights? It should be said that both our theories and practice in the field of economics have given us an affirmative reply.

When we stress the importance of upholding the public ownership system in the course of developing the socialist market economy, we do not mean that we must adhere to the old public ownership system under a planned economy. On the contrary, we believe that only by fundamentally reforming the old public ownership system, particularly the state ownership system, will it be

possible to truly and effectively uphold the public ownership system, including the state ownership system, in the course of developing a socialist market economy. In reforming the state ownership system, we must mainly resolve the following several issues:

First, we must ensure that persons and institutions in charge of state assets assume full responsibility for these assets. From the theoretical and legal point of view, state assets belong to all the people. Due to extremely high operating costs, it is impossible for all the people to directly manage state assets. This creates the issue of proxy and procuration in economics. In the past, many government departments were in charge of state property. However, when problems crop up and financial losses soar, no specific person can be blamed. Even in those enterprises where a shareholding system is being implemented, the issue of who represents the state shares remains unresolved. In reforming the system of managing state property, we must resolve the issue of responsibility for state property. We must have some persons or institutions whose immediate interests are closely linked with how state-owned assets are managed. They reap benefits, including financial remuneration, if state property is well managed. Otherwise, they must assume economic risks as well as administrative and legal liability. There are two plans that we may adopt. 1) In general, we rationally divide property rights between the central government and the various local governments at all levels on the basis of existing jurisdictions. 2) The ultimate ownership belongs to the State Council, while the local governments enjoy administrative power and usufruct steadily and on a long-term basis. It looks like the second plan is the more practical. To resolve this issue, we must adhere to several principles. For example, we must comply with, not run counter to market economic operational requirements, and continue to share profits as we did in the past. We must rationally divide property rights between the central and local governments, and unreservedly delegate to the local authorities those rights which belong to the lower level. Meanwhile the central government must resolutely exercise those rights which ought to be centralized.

Second, we must improve the liquidity of state property. Under the old system, state-owned properties are only physically taken care of. The chances of turning such properties into immediate cash are quite slim. There are a great many restrictions on selling such property without going through the official channels. This situation remains unchanged even at present. State-owned property has been poorly managed in recent years. One of the major reasons is the ineffective allocation of such property. Some state-owned property was lost not long ago because of underpricing. This situation merits our attention. Right now, there is a saying that management of property will be improved if such property is in private hands. Such comments are groundless. We should work out relevant rules and regulations, standardize the procedure for transferring state-owned property and try our best to avoid or reduce losses in selling

such property. On the other hand, we must not bind ourselves and keep our doors shut simply because of some problems in transferring state property. More property will be lost if property transactions are frozen. It is for this reason that we must strive to improve the liquidity of state-owned property or float bonds on the basis of such property, lift arbitrary restrictions on state property transactions, quicken the pace in developing the financial market, and gradually establish a normal procedure for handling such transactions.

Third, we must encourage active competition in managing state-owned property. Competition is one of the most important features and advantages in developing a market economy. It is indispensable if we wish to raise efficiency in running all types of ownership systems. In actual life, we often notice that the efficiency of various enterprises under the same ownership system may vary widely because they are competing with one another under different conditions. Competition is an even more important factor as far as the state economic sector is concerned. With the exception of a few specialized enterprises, enterprises with sole state proprietorship or those whose management is monopolized by state shareholders usually have low efficiency. They are totally different from those with private investment. In privately owned enterprises, there is no lack of incentive, a symptom common in state-owned enterprises with sole state proprietorship or under monopolistic control of state shareholders. In enterprises financed entirely by state capital, exclusive proprietorship and monopolistic shareholding will often lead to administrative interference, lack of responsibility and other malpractice, such as excusing or covering up mistakes.

Quicken Pace of Reforming System of State-Owned Enterprises

In general, changing the system of state-owned enterprises is aimed at instituting a modern enterprise system. Right now, there are different ways of understanding the meaning of a modern enterprise system. Some people believe that a modern enterprise system means a corporate system, particularly one with limited liability. Its typical form was developed between the end of 19th century and the turn of the 20th century. It separates ownership from management, and it has the characteristic of hiring a manager to run the enterprise. Other people believe that a corporation is an important form of a modern enterprise system, but it is not the only form. A modern enterprise should include other forms of enterprise organization, which are common in today's modern economy such as enterprises in partnerships and proprietary enterprises (enterprises with individual proprietors). We may continue discussing these issues. In the preceding stage when the modern enterprise system was carried out, there seemed to exist a trend of equating modern enterprises with companies and companies to listed companies. Whenever the development of a modern enterprise system is mentioned, it means the

development of listed companies. According to the experience of foreign countries where market economies have developed, companies are generally in the minority in the total number of enterprises, and only 0.1 or 0.2 percent of the companies and enterprises listed on any stock exchange. The trend of equating the modern enterprise system with listed companies is groundless in theory. In practice, it may lead to chaos and create harmful effects in developing a modern enterprise system.

Furthermore, in developing the particular trade which we need the state-owned economic sector to enter, we must select the different specific forms for enterprise organization in accordance with the characteristics of the different trades and professions. In those departments of great significance which directly involve national security, such as national defense, aerospace and coinage, we should adopt the form of state sole proprietorship. In developing urban public utilities, electric power, telecommunications, railways, and other departments with characteristics of a natural monopoly, we should mainly adopt the form of sole proprietorship of the state and the form of holding companies financed by state capital (but we should not exclude the entry of a small amount of nonstate capital in some appropriate forms). In developing basic and pillar industries which play a significant role in our national economy, such as large enterprises in the petrochemical, iron and steel, and automobile industries, we may adopt the form of limited liability companies with state proprietorship or state equity participation. In developing medium-sized and small enterprises in trades of general competitiveness, it is somewhat unnecessary for state capital to enter. The part of the state economic sector which has already participated in these enterprises should gradually withdraw in appropriate forms.

As for what form we should adopt in changing the system of state-owned enterprises, various localities have conducted experiments in recent years such as foreign investment grafting, "one plant, two systems," merging, buying, selling and "withdrawing from the second and entering the third (moving out of busy districts and shifting from secondary to tertiary industry). Some enterprises are now operating in different corporate forms after transformation, while others are experimenting with a partnership system in the form of stock sharing. These experiments have yielded good achievements, some of which are quite remarkable. We should continue to encourage the use of different ways of carrying out experiments instead of trying a single method only. China is such a vast nation and the situations in various enterprises differ widely. Problems will inevitably crop up if we try to deal with all the enterprises in a single pattern. However, from a medium- and long-term point of view, we must try our best to standardize the organizational pattern for those enterprises which are undergoing reform in order to gradually improve the modern enterprise system. Correctly handling the relationship between diversification

[FBIS Translated Text] The heavy debt burdens of state-owned enterprises have become an unavoidable problem in deepening enterprise reform.

According to statistics, at the end of 1993, the ratio of state-owned enterprises' liabilities with regard to their assets was 68.2 percent, which was far higher than the rational 50-percent ratio. As state-owned enterprises excessively relied on bank loans in their production and operations, their debts were excessively heavy, thus leading to a situation in which bad debts were left unrepaid in large quantities. According to a calculation, bad debts constituted 25 percent of the banks' balance of credit to enterprises. Some people even argued that the ratio was higher.

Apart from the operation and management of enterprises, to an even greater extent this state of affairs was the result of the change in the state's policy toward enterprises. After state allocations were replaced with loans in 1983, the capital in cash for enterprise production and operations was not replenished as it should have been, and some state-owned enterprises even did not have any capital in cash. State-owned enterprises have been overburdened by debts and taxes for quite some time in the past, and a considerable number of them could not pay their debts on time. They did not have enough profits to retain, so a considerable number of enterprises was unable to repay loan promptly, and thus were all the more unable to accumulate. So heavy debt burdens have adversely affected state-owned enterprises' efficiency, and a considerable number of enterprises that were not managed efficiently were unable to repay their debts. Hence, there was a vicious circle between debt and efficiency.

To establish a modern enterprise system, state-owned enterprises' debt problem should be resolved. Society has reached a consensus of understanding on this issue. How should the problem be solved?

The general idea is to carry out debt restructuring.

The general consideration of the State Commission for Restructuring Economy for this year is to carry out debt restructuring through the active merger of inferior enterprises by superior ones, and to carry out debt restructuring among those enterprises with products that have a ready market and with good prospects for development, but which are now heavily in debt because of a lack of capital injection, through the adoption of such forms as shareholding system reform, Sino-foreign joint ventures, and capital injection by investors in sectors other than the state-owned economy, and to clear debts using funds raised from society and capital absorbed from abroad.

With regard to those enterprises now heavily in debt which are short of capital injection and the operations of which are only marginally profitable or are in the red, but which have sound technology and management, as well as products that are in line with the industrial policy, the following explorations can be conducted:

1. As far as the debts resulting from the state's "transformation of allocations into loans" are concerned, the quantity and ratio should be checked and decided, and the loans should be turned into investments so as to boost the state-owned capital of enterprises.

2. The verified bad debts and dead accounts can be canceled from the banks' reserves as bad debts according to relevant state stipulations.

3. Some cities and enterprises can be selected to conduct experiments in clearing and rescheduling debts between financial departments, banks, and state-owned enterprises.

4. A debt trust institution can be established, with certain superior enterprises playing a dominant role, so that the debts of a number of relevant enterprises will go to the debt trust institutions and reduce the debt burdens of enterprises put under trusteeship.

5. Creditor's rights can be sold to social intermediary institutions, which will convert creditor's rights into equities and readjust the structure of enterprise asset liabilities.

6. When it comes to debts between different enterprises (not including bank debts), creditor's rights can be turned into equities through full consultations; enterprise capital can be rechecked and decided; and relevant enterprises can be reorganized into limited-liability companies.

These methods have provided a basic line of thinking which should be continuously enriched and improved in practice. In the course of enrichment and improvement, several outlines should be made clear:

First, reorganization, no matter what forms are adopted, does not mean writing off the debts of state-owned enterprises in an unprincipled fashion and without exception. First of all, the authorities in charge of state revenue do not have such financial resources. People must not think: As both state-owned enterprises and banks belong to the state, and as the debts between enterprises and banks are debts owed by the state to the state, what is the need for the state to move its money from one pocket to the other?

In fact, the money in the banks is not necessarily all possessed by the state. At the end of 1993, of the debts owed by state banks, the ratio of debts in the form of bank deposits exceeded 90 percent, of which 70 percent went to ordinary people's personal savings accounts and 20 percent belonged to enterprises' savings accounts. To put it another way, basically speaking, the banks are using social deposits to extend loans, and should pay capital with interest to the depositors for the money they use to extend loans. When bad loans reach the proportion of 25 percent of the total loans extended, if all debts were to be written off, this will seriously endanger the normal operation of banks.

such property. On the other hand, we must not bind ourselves and keep our doors shut simply because of some problems in transferring state property. More property will be lost if property transactions are frozen. It is for this reason that we must strive to improve the liquidity of state-owned property or float bonds on the basis of such property, lift arbitrary restrictions on state property transactions, quicken the pace in developing the financial market, and gradually establish a normal procedure for handling such transactions.

Third, we must encourage active competition in managing state-owned property. Competition is one of the most important features and advantages in developing a market economy. It is indispensable if we wish to raise efficiency in running all types of ownership systems. In actual life, we often notice that the efficiency of various enterprises under the same ownership system may vary widely because they are competing with one another under different conditions. Competition is an even more important factor as far as the state economic sector is concerned. With the exception of a few specialized enterprises, enterprises with sole state proprietorship or those whose management is monopolized by state shareholders usually have low efficiency. They are totally different from those with private investment. In privately owned enterprises, there is no lack of incentive, a symptom common in state-owned enterprises with sole state proprietorship or under monopolistic control of state shareholders. In enterprises financed entirely by state capital, exclusive proprietorship and monopolistic shareholding will often lead to administrative interference, lack of responsibility and other malpractice, such as excusing or covering up mistakes.

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As for what form we should adopt in changing the system of state-owned enterprises, various localities have conducted experiments in recent years such as foreign investment grafting, "one plant, two systems," merging, buying, selling and "withdrawing from the second and entering the third (moving out of busy districts and shifting from secondary to tertiary industry). Some enterprises are now operating in different corporate forms after transformation, while others are experimenting with a partnership system in the form of stock sharing. These experiments have yielded good achievements, some of which are quite remarkable. We should continue to encourage the use of different ways of carrying out experiments instead of trying a single method only. China is such a vast nation and the situations in various enterprises differ widely. Problems will inevitably crop up if we try to deal with all the enterprises in a single pattern. However, from a medium- and long-term point of view, we must try our best to standardize the organizational pattern for those enterprises which are undergoing reform in order to gradually improve the modern enterprise system. Correctly handling the relationship between diversification

and standardization is an important issue in the course of reforming enterprises. In fact, we must understand the role of different main bodies and their mutual relations when they carry out reform. We can only rely on the governments, in many occasions the central government, to work out the principle, policy, and rules and regulations of reform, such as setting targets for the development of a modern enterprise system and the enactment of the "Corporate Law." Some other reform programs which are related to enterprise reform, but restricted by various government reform programs, such as government structural reform, financial and taxation reform, and banking reform must be carried out by the government. The cadres and masses in the place where an enterprise is located understand the situation well and are best qualified to speak on issues such as what kind of specific organizational pattern an enterprise should adopt, what kind of enterprises it should merge or ally with, and what method it should use to cast off burdens of the past to change its operational mechanism. A great many of our experiences prove that the best and most practical and dynamic organizational patterns of an enterprise are often created by the cadres and masses who work on the front-line of this enterprise and particularly by their own entrepreneurs.

As seen from the situation in developing a modern enterprise system in the preceding stage, the main obstacles come from a series of deep-rooted problems which were left over from the period of planned economy, and which we failed to solve for many years. In addition to the aforementioned reform of the state-owned property rights system, there are also other problems.

One difficult problem is the relocation of the large number of redundant workers. Right now, it is estimated that the number of redundant workers in state-owned enterprises account for 30 percent of the total number of workers. In some enterprises, this percentage is even higher. It is not hard to imagine the kind of social and political problem that the government can hardly bear if enterprises dump their large number of redundant workers into society. During the current stage in which enterprises are changing their operational mechanisms, we should not entertain tremendous hope in opening up the labor market to find jobs for the redundant workers. We should pay full attention to opening up new paths for employment. However, the employment situation in China remains grim at present and in the near future, because a large number of laborers in rural areas are looking for nonfarm jobs. In addition, there are many new laborers waiting to enter the job market. Therefore, finding new jobs for those redundant workers is no easy task.

Another difficult problem is the establishment of the social security system, an issue which is closely connected with the relocation of redundant workers. The characteristic of the old enterprise system is that the government holds unlimited liabilities for the enterprises, while the enterprises also assume nearly unlimited liabilities for their workers. Employment, welfare,

and insurance are lumped together. Wages in the form of currency only constitute a part of a worker's actual income. Workers directly rely on their employers for housing, medical care, pensions, schooling for children, the privilege of substituting old or retired workers with their sons or daughters, wages in kind, and other benefits. This kind of security system with the enterprise as the center has made workers totally rely on the enterprise which must bear the burden of supporting social undertakings. On the other hand, enterprises assume almost unlimited liability for their workers. In many old enterprises, often two active workers support a retired worker. This situation is even more serious in old industrial base areas. We have exerted some efforts to establish a social security system in recent years, but there has been no significant development in this connection. One of the main problems is lack of money. We are unable to raise enough money through the existing channels.

Still another difficult problem is the heavy debt burden of enterprises. Since its decision to "change from state appropriations to loans" in the early eighties, the state has basically stopped putting more capital into existing enterprises. It helps enterprises maintain production and make investments in the form of bank loans. On the one hand, this has kindled chaos in property rights relationships (particularly chaos in determining the right of attribution for investments made with bank loans); while on the other hand, it has greatly increased the amount of debt of enterprises and the burden of repaying them with interest. Even more serious is the fact that there are a rather large number of loss-suffering and deficit-ridden enterprises which will never be able to turn their losses into profits. They rely on and use bank loans as a means of "blood transfusion" to eke out their existence. As far as those enterprises are concerned, there is basically no basically hope for them to repay their bank loans. Apparently it will be a difficult task to help enterprises reduce their heavy financial burdens under such a complicated situation in the course of carrying out banking reform.

We must exert strenuous efforts and spend a great deal of time in solving the aforementioned difficult problems. We should give these problems a full appraisal. Despite all this, we should not try to avoid facing these problems. We must energetically create conditions to solve them. Right now, we should avoid trying to solve deep-rooted problems by simply changing the names of enterprises. Meanwhile, we should adopt effective measures to quicken our pace in reforming the social security, housing, and banking systems and the structure of government in order to create the necessary external conditions to help state-owned enterprises change their operational mechanisms.

Article on Deepening Enterprise Reform, Part 4

HK0102010995 Beijing RENMIN RIBAO in Chinese
25 Jan 95 p 2

["Straightening Out Thinking" column by staff reporter Wang Qingxian (3769 3237 2009): "Old Accounts Must be Settled—Thought on Deepening State-Owned Enterprise Reform, Part Four"]

per-capita material products. If we compare our per-capita share of energy, crude steel, electric power, and meat in 1990 with that of Japan and the "four little Asian dragons," our per-capita share of means of production is slightly lower than theirs, and that of consumer goods is slightly higher than theirs at the time when their per-capita GNP was \$500. In short, we may say that our per-capita GNP in 1990 was \$500, and the total national GNP \$570 billion. That is the starting point of our long-term planning.

3. Speed of growth and target of our plan.

The experience of Japan and the "four little Asian dragons" proves that after they had begun to develop their heavy industry, they had approximately 20 years of high-speed growth, and their GNP growth was maintained at around 10 percent for a long period. In terms of economic structure, the share of the agricultural sector dropped from 40 percent to about 10 percent, and the industrial sector rose from 15-20 percent to about 45 percent. The growth rate of the service industry remained basically stable.

China started developing its heavy industry in early nineties. Its long-term growth rate in the future is also expected to reach approximately 10 percent. If we calculate on this basis, China's total GNP will reach \$3,835 billion by 2010. At that time, China's total population is expected to reach 1.4 billion. The per-capita GNP will be \$2,740, equivalent to that of a middle-ranking developed nation.

To raise national per-capita GNP to \$2,500 is an important hallmark to show achievements in industrialization, because after exceeding the \$2,500 mark, people's basic requirements in consumer goods have been met, and consumers begin to pay more attention labor services. This will bring about the development of a service industry. People will enter the so-called "post-industrialized society." For example, per capita income in the United States reached \$2,500 in 1956. At that point, after maintaining a long and steady proportion for more than 100 years, the service industry rose from 55 percent to nearly 70 percent in the just over 20 years.

If China's per-capita GNP exceeds \$2,500 by 2010, this will also show that its historic task of industrialization has been achieved in general. Therefore, the goal for development by 2010 can be defined as a "basic completion of industrialization."

II. Trends and Difficult Problems for Long-Term Development

China has entered the era of building heavy industry in the early nineties. It will basically fulfill the task of industrialization by 2010. This is China's major trend of development for the next 20 years. Under the influence of this trend, a series of profound changes in development may take place, creating many new trends. These new trends constitute the basic requirements of realizing

industrialization. Meanwhile it will create many new contradictions and difficult problems.

1. Trend in building heavy industry and distortion in investment structure.

Let us discuss characteristics of production structures in the stage of heavy industrialization. Major changes have taken place in the industrial structure in addition to the markedly increasing proportion of the industrial output value in primary, secondary, and tertiary industries. That is, the share of heavy industry has markedly increased and the proportion of machine-building, electronics, and chemical industries and other heavy processing industries has also notably increased. When the per-capita GNP in Japan and the "four little Asian dragons" was \$500, the proportion of heavy industry was about 40 percent, but it rose to 60-70 percent when their per-capita GNP increased to about \$2,500. Due to historic reasons, the proportion of industry in the primary, secondary, and tertiary industries in China is relatively high, and the ratio of heavy industry is also high in the industrial output value, being 45.1 percent and 52.7 percent respectively in 1993. Predicting the future on this basis, we believe that by 2010, the proportion of industry may possibly rise to 50 percent and that of heavy industry increase to 70 percent. Correspondingly the ratio of the primary, secondary, and tertiary industrial structure and the rate of growth of light and heavy industries can be predicted as follows:

Predicted Trend of Industrial Structural Changes for 2010(%)

	Primary Industry	Secondary Industry	Industry	Tertiary Industry	Light Industry	Heavy Industry
1993	21.2	51.8	45.1	27	47.3	52.7
2010	10	57	50	33	30	70

Predicted Rate of Growth(%)

GNP	Industry	Light Industry	Heavy Industry
10	10.4	7.5	12.3

The reason for the prominent structural fluctuations is the fact that tremendous changes have taken place in the investment structure. Let us take Japan as an example. During the period when industrialization was being carried out at high speed (1955-1970), the total amount of investment in fixed assets rose by 11 times, but industrial investment grew 15 times, in which investments in machine-building and electronics industries increased 28 times.

In all three of China's five-year plans for the development of the national economy worked out since the beginning of the reform program, emphasis was invariably placed on promoting development of light and basic industries. Plans to select some technology- and knowledge-intensive industries with high added-value as

leading industries have been given much attention. The speed of economic growth has once again increased in the past two years. However, in the investment structure, there has emerged a situation in which the ratio of industry, particularly the ratio of the investment in heavy processing industries, has dropped. Since China is short of, or unable to manufacture, the machinery, equipment and parts needed for the development of heavy industry, we can only rely on a large quantity of imports to satisfy our requirements. Therefore, the ratio of imports of mechanical and electric products has risen from 30 percent in 1991 to nearly 50 percent. This has imposed tremendous pressure on the balance of international payments.

The essence of industrialization is to use modern technologies to replace traditional ones. If we are unable to develop, over a long period of time, some technology- and knowledge-intensive heavy processing industries with high added value as our leading industries, it will be difficult for us to fulfill our task of industrialization or to even continuously carry on our industrialization process.

2. Huge production scale, shortage of mineral resources

About 70 percent of the resources needed for the production of light industrial products come from agriculture. All the resources used are available above ground. Minerals are basically used as raw materials for heavy industrial production. Therefore, the advent of the era of developing heavy industry changes the structure of resources from materials above the ground to those under the ground.

Although China is a vast country, its underground natural resources remain limited with the exception of coal. Furthermore, China is a populous nation. The per-capita share of main mineral resources ranks 80th in the world. However, we can only fulfill the task of industrialization and enjoy a modern life by increasing the per-capita material wealth. Without the guarantee of resources, it is difficult to achieve industrialization.

Let us take petroleum as an example. The United States and Japan consumed 40 percent of their GNP in petroleum when their per-capita GNP reached \$2,500. Taiwan and Korea consumed 60 percent of their GNP in petroleum when their per-capita GNP reached \$2,500. Calculating on this basis, we believe that by 2010, China will need to consume 1 billion tons of petroleum. However, China's annual output of petroleum is only 140 million tons right now. Due to extended mining over a protracted period of time, the major oilfields in east China such as the Daqing and Shengli oilfields will be nearly exhausted by 2010, while the newly developed Xinjiang oilfield and the offshore oilfields cannot completely replace the old ones. If China needs to import 800 to 900 million tons of petroleum annually in the future, such amount will be approximately two-thirds to three-quarters of the world output of petroleum. The situation is similar with iron ore. Calculated on the same basis, we believe that by 2010, China's steel output will reach 350

million tons. If we figure that two tons of iron ore are needed to produce one ton of steel, China needs at least 700 million tons of iron ore each year, but China's current annual output of iron ore is only slightly over 200 million tons. Even in the future, it will be hard to increase the output to 400 million tons. At present, the total output of iron ore abroad is only slightly over 800 million tons of which the total amount of iron ore for international trading is only slightly over 200 million tons.

According to data compiled by a U.S. magazine "FORTUNE", each American will consume about 20 tons of mineral resources in his or her whole life, while a person in China consumes about 1.5 tons at present. All these mineral resources are beyond retrieve. Considering the potential value of China's current mineral resources and the degree of mining, we believe that our mineral resources can only last about five to seven years if the Chinese people's consumption level reaches that of the American people. Following the development of the heavy industrialization, the contradiction between economic growth and the consumption of resources will continue to sharpen. If China is unable to solve the problem in the supply of energy and mineral resources in the course of industrialization, it will be hard for China to achieve its modernization goal.

3. Growth of demand for agricultural products and insufficient agricultural resources

China's population will increase by more than 200 million by 2010. From the experience of developed nations, the people's food consumption and their income will simultaneously grow when their per-capita income reaches about \$2,500. Only when their per-capita income reaches \$5,000, will this trend ease up. During the later stage of industrialization in Western countries, the per-capita grain consumption was between 800 and 1,000 kg. The per-capita grain consumption of Japanese people whose food structure is similar to ours was 520 kg when their per-capita income was \$2,500. Right now, China's per-capita grain consumption is less than 400 kg. If we presume that China's per-capita grain consumption will be 500 kg by 2010, China's total demand for grain should be 700 million tons.

China's acreage of arable land only accounts for 7 percent of the world total, but we have to feed 22 percent of the world's population. Therefore, the per-mu yield of grain is already in the world's front row. With the support of modern agro-technology backed by chemical fertilizers and insecticides, our maximum marginal grain output is 300 kg per mu. When the per-mu yield reaches or exceeds this figure, the marginal returns will start to decline. China's per-unit grain yield has been rapidly approaching this margin since 1984. Its grain output reached 275 kg per mu in 1993. The consumption of grain crops also rose from 30 percent in 1984 to the current 37 percent. Therefore, the situation in which "there is greater harvest, but no increase in revenue" remains more serious.

Due to the development of industrialization and urbanization, more arable land will be used by the nonagricultural sector. According to an estimate made by the Ministry of Agriculture, China's acreage of arable land will be reduced to 130 million mu by 2010. If we calculate on the basis of the current acreage of arable land planted with grain crops and the double-cropping index, the per-mu yield of grain must exceed 450 kg if all grain crops are to be produced in China. Right now, the only nations in the world that can possibly exceed such a high yield of grain crops are the Netherlands and Belgium. No nation in the world can exceed the 300 kg per-mu yield on a large scale. If China's grain output in 2010 reaches approximately 500 million tons and its per-mu yield can be maintained at the 325 kg level, it must import 200 million tons of grain. This amount of grain is equivalent to the total trading volume of grain in the world. If there are difficulties in both domestic production and imports, serious contradictions between supply and demand of farm products will be inevitable with the raising of the per-capita income. This will cause food prices to increase over a protracted period. The government must address the serious issue of "food basket" for a long time.

4. Trend of urbanization and relevant difficult problems

When the per-capita income in Japan and the "four little Asian dragons" reached \$500, their rate of urbanization was around 45 percent. When their per-capita income reached \$2,500, their rate of urbanization rose to more than 75 percent with a growth rate of 1 percent per year. Prior to reform, China had implemented the industrialization policy of separating towns from the countryside over a protracted period. After the reform, it has once again implemented the policy for rural industrialization by "quitting farming without leaving the countryside." Therefore, its rate of urbanization is still about 27 percent right now.

Due to its low starting point, China's rate of urbanization will rise at the speed of one percent per year from now to 2010. At that time, China's rate of urbanization will be approximately 60 percent. That is to say that China's total urban population will increase from 320 million at present to 840 million, a net growth of more than 500 million, and the total number of cities will rise from 500 at present to over 1,000. Without such tremendous progress in urbanization it will be impossible to accommodate the newly added urban population of 500 million. Nor will it be possible to fundamentally change China's visage as an agricultural nation.

Cities are carriers of industry. When the rural population moves to the cities, there must be jobs for them. Therefore, urbanization and industrialization are inseparable from the shift of the labor force. They are also closely connected. Industrialization needs agriculture and mineral resources. It also badly needs water resources. Urban residents consumes one-third more water than their rural counterparts. Therefore, water is the lifeline of cities.

Most of the several hundred cities in China are short of water right now. If these cities become large or super-large cities in the future, their water shortage will become even more serious. Such water shortages will become another serious problem which will restrain China's industrialization and urbanization process. Due to the shortage of water resources, China's new cities should be built along major rivers. Naturally problems in environmental protection, pollution control, and land management will become more outstanding.

Due to the problems of the "dualistic structure," China's urbanization of the rural population has been significantly slowed down, the "population flow" ignited by the rural surplus laborers has become a hidden major social ill. Between 1984 and 1992, an average of 11.22 million rural laborers flowed to the cities. If China is expected to increase its urban population by more than 500 million in 2010, it must absorb no fewer 28 million rural laborers into cities each year. Whether or not the contradiction of the "dualistic structure" can be solved and the level of industrialization and urbanization in rural areas raised will be of great significance to achieving China's industrialization program. Conversely if we cannot duly reduce the rural population and we fail to raise nonagricultural production output, it will be impossible for us to fundamentally change China's outlook in agriculture. It will be difficult for us to maintain social stability.

5. New pattern in economic regionalization and relevant difficult problems

Major changes in three aspects will take place in China's regional economy from the nineties to the next century.

First, there exists the trend of the "closed west China" and "open east China" caused by the flow of resources to the east. For a protracted period, the center of China's industry is in east China. So is the development of resources. However, east China is not a region where there are abundant resources. Since the eighties, the output of resources in east China has been dropping, and the trend of paying more attention to tapping resources in China's western region is become more prominent. China is a vast country, and there is a considerable distance between the western and eastern parts of the nation. It is not so ideal to transport resources on a large scale from west China to east China. This will also increase the burden on transportation facilities. Moreover, from the long-term point of view, the western region is unable to satisfy China's entire needs for industrialization. Therefore, while paying more attention to resources in the western region, the eastern region will soon or later follow the path of importing raw materials from abroad and exporting manufactured products to foreign countries. Meanwhile, the western region will rely on its own resources to achieve its goal of industrialization.

Second, there will be a trend of shifting the center of growth to the north. In the eighties, economic growth

was most rapid in south China with the Pearl River Delta playing the leading role. The reason is that in the eighties, China's economic growth was mainly in the light industry. South China, where light industry boomed, was precisely suited for developing this trend. South China has the advantage of bordering on Macao and Hong Kong. Therefore, it became the center of China's economic growth in the eighties. A tendency to develop heavy industry prevails in the nineties. People have shifted their attention from consumption to investment and from south China where light industry played a leading role to north China, particularly around the Bohai region, where heavy industry held sway. The world regional setup in the nineties has forced Japan and the "four little Asian dragons" to change their development strategies. Both Japan and Korea are near north China. Their economic scale is 14 times of that of Hong Kong and Taiwan. Their ability to give impetus to China's economy are far greater than that Hong Kong and Taiwan. Due to the fact that north China, particularly areas around the Bohai region have the advantage in domestic and foreign trade, there will definitely emerge a sign of China's center for economic growth "moving to the north."

Third, there will be a trend of the various economic regions becoming relatively independent. Regional market scale is the product of the size of the population in a region multiplied by the per-capita income. A smaller population with higher per-capita income may create a relatively larger market demand. Conversely, a large population with extremely low per-capita income will not create a large market size. Under the conditions of the modern market economy, the production scale of many industries must increase to a certain extent in order to express the merit of scale. However, the size of production scale is restricted by the size of the market. Therefore, when the per-capita income is relatively low, a set of production facilities with sufficient scale merit may satisfy the people's consumption in a considerably large area. However, when the per-capita income has increased, the same set of production facilities may satisfy the needs of fewer people and in a smaller area. The experience of some developed countries shows that when the per-capita income is within the range of \$1,000-\$2,500, the per-capita demand for ethylene will increase from 8 kg to 30 kg. If the smallest set of ethylene-producing equipment of the best optimized size is 300,000 tons, when the per-capita income is \$1,000, this set of equipment may satisfy the needs of 37.5 million people, but when the per-capita income rises to \$2,500, the same set of equipment can only satisfy the needs of 10 million people. From a geographical point of view, the total area served by this set of ethylene-producing equipment shrinks by three-quarters.

Right now, one characteristic of China's industrial layout is that emphasis is placed on light industry in south and east China, while much attention is paid to developing heavy industry in north and west China. This

characteristic shows a division of labor in China's industrial layout. Due to rapid economic growth since the beginning of the eighties, a trend to divide the country into different regions for industrial development has begun to emerge. The volume of railway freight in 1990 showed that there are a great deal of activities for industrial development in the economic zones in north, central and south China. The volume of railway freight in the three economic zones is significantly higher than that in other economic zones. For example, the volume of railway freight within the North China Economic Zone which includes north and northeast China accounts for 70 percent of the total volume of railway freight in the zone, while the volume of freight to localities outside the zone accounts for only 30 percent. With rapid economic development in the next 20 years, the trend of dividing China's economy into different regions will undoubtedly continue. By 2010, there may emerge more than 20 relatively independent economic zones in our country. The most significant characteristic of these economic zones is that within a certain region, there exists a relatively independent industrial system which will provide the people in the region with the majority of producer and consumer goods. Therefore, we may say that China will enter an era of economic regionalization.

Whether we move to the east or the west or we divide our economy into different regions, there will be many new, difficult problems. A large amount of investment is needed either to develop resources in the western region or build new processing industries in various localities. In the western region, we gradually need to establish our market for overseas resources. In the nineties when the center for growth is moving northward, the southern provinces and cities where light industries are playing a leading role will also face the problem of how to raise funds to develop local heavy industry. The largest obstacle in economic rationalization is the administrative management system in which there are many barriers between various government departments and regions. On the one hand, such a system causes duplicate small-scale construction projects, while on the other hand, it prevents elements of production from freely flowing to other administrative districts. If China's economy cannot achieve its goal of rational allocation of resources within its own spatial dimension, its program of industrialization will also be greatly delayed.

6. Quality and ageing of population, issues of social security

Heavy industrial products are technology- and knowledge-intensive. Therefore improvement of the industrial structure and replacement of traditional technology with modern technology require highly qualified workers. When the U.S. per-capita income reached \$2,500, the number of white-collar workers had already exceeded that of blue-collar workers. When the per-capita income in Japan and the "four little Asian dragons" rose from \$500 to \$2,500, there were approximately 1,000 college

graduates in every 10,000 workers. According to statistics, more than 90 percent of the workers in China at present are physical laborers. Only less than 10 percent of them are professionals and technicians. During 1992, there were only 132 college graduates in every 10,000 workers in China. China's population accounts for 22 percent of the world population, but the number of illiterates reached 230 million, accounting for 25.9 percent of all the illiterates in the world. Therefore, as compared with material development today, it is much harder to educate and train people.

When the per-capita income in Japan and Taiwan rose from \$500 to \$2,500, the share of expenditures for public education accounted for approximately 5 percent of their total GNP. In this connection, Korean expenditures for education also rose from 2 percent to 5 percent. Right now, China's expenditures for education is 2.8 percent. If China also raises its expenditures for education to about 5 percent, it will have to curtail its investments in economic construction. This is not an old problem. It will become even more serious in the future.

Due to its policy on planned parenthood, China will soon enter the era of an ageing population, between the end of this century and the beginning of the next century. Right now, 62 percent of the population of Western developed countries is between the ages of 15 and 62. It is expected that this figure will remain the same by 2000. Right now China's laboring population is about 64 percent. This figure is expected to drop to 62.4 percent by 2000, to 60.2 percent by 2010 and to below 60 percent by 2020. In less than 20 years, China will have an aged society just like the modern Western nations.

With the advent of an ageing population, expenditures on social security will duly rise. The amount of expenditures for social security in Western countries today is between 8 and 10 percent of GNP, and that of France and Italy is close to 20 percent. Right now, the amount of China's expenditures for social security is only between 4 and 5 percent of GNP, because its population is still relatively young, and there are fewer people living in cities. Therefore, the government assumes a lower social security burden. However, with the rapid growth of the ageing population and the development of urbanization, the amount of expenditures for social security will sooner or later reach 10 percent. If it is said that Western countries generally have an ageing society after they have accomplished their industrialization goal, China would have a hard time in financing its industrialization program, because its population is already ageing before it achieves industrialization.

Developing education and training people are necessary conditions for industrial modernization. To gradually establish a social security system suited to an ageing society is an objective requirement for social development. China's rate of investment in 1993 was 37.75 percent, the highest rate since reform began. If expenditures for education and social security must be gradually

increased to 7 percent, China's rate of investment will have to be curtailed to 30 percent. If there is no significant change in input-output efficiency in the whole society, the declining rate of investment will adversely affect the growth rate and the process of industrialization.

7. Difficult problems in promoting industrial internationalization: and opening up to world markets

From the aforementioned analysis on the supply and demand of energy, mineral and agricultural products, we can already realize that China's industrialization program will make an impact on the world market. As far as China's import structure is concerned, China mainly imports manufactured industrial products, which account for more than 80 percent of the total imports. The experience of Japan, Taiwan, and Korea, whose per-capita share of resources is similar to China's, shows that their imports of primary products always accounted for 50-70 percent in the process of industrialization. Similar changes will take place in China's import structure sooner or later.

If China's future imports of petroleum amount to 900 million tons, we must take into account the fact that such large purchases will cause the price of crude oil to rise on the world market. Suppose crude oil costs \$150 a ton; China will have to import \$135 billion worth of crude oil. If its total imports of grain are 200 million tons by 2010 at \$200 per ton, and we take into account the rising price of grain because of large imports, China will have to import \$40 billion worth of grain. In addition to the imports of other foodstuff, the total amount of food imports will reach \$50 billion. From the experience of Japan, Korea, and Taiwan, we can see that during the period of high growth rate, the imports of other primary products are equivalent to approximately 70 to 80 percent of the imported raw materials for food. This figure in China in the future may be 70 percent, so its imports of other primary products will amount to \$130 billion. Thus, the imports of all primary products will be approximately \$320 billion. If imported primary products account for 70 percent, then by 2010, China's total imports will be \$410 billion. This amount of imports may decide China's total exports by 2010. The annual growth rate of world trade in the eighties was 4.5 percent. We believe that this growth rate will be 4 percent from the nineties into the next century. By 2010, the total amount of world export trade will reach \$7 trillion. If China's exports will reach \$410 billion by 2010, its share in the world export trade will rise from 2 percent in the early nineties to 6 percent. As for China's long-term annual growth rate in foreign trade, it is expected to possibly reach 12 percent on average by 2000, and 7.5 percent between 2000 and 2010.

The question is whether or not the world market can provide China with enough primary products, particularly grain, petroleum, and iron ore. Right now, tens of millions of acres of arable land are idle in North America

and Europe. Many Asian, African, and Latin American nations are energetically developing all types of mineral resources. The Middle East's crude oil reserve is approximately 30 billion tons, enough to supply the world for more than 100 years. However, would China's large purchases arouse these nations to exploit their natural resources? Would it touch off tension and unrest in some countries? To what extent will the price of crude oil increase on the international market? All these questions must be clearly answered after carrying out careful studies and verification over a protracted period. It should be pointed out that most the aforementioned calculations on China's demand for resources are made on the presumption that China will consume half of the resources used by developed industrial nations when their per-capita income was \$2,500. Until now, we have no good grounds to believe that by relying on the progress in science and technology, China will be able to lower consumption of its sources by half in the next century. Therefore, the problem may possibly become more serious than we thought. Of all the structural changes caused by the development of heavy industry, perhaps the structural change in foreign trade is most drastic. If the proportion of imported primary products reaches 70 percent, the ratio of imported industrial manufactured goods will be greatly curtailed. China's industrial modernization relies on advanced equipment and facilities imported from industrially developed countries. The imports of foreign equipment have grown by 25 percent each year in the nineties. Henceforth, if we demand that the ratio of primary products be increased to 70 percent, the long-term growth rate of imported equipment will have to be curtailed to approximately 6 percent, and China's industrial modernization program will be significantly affected.

One of the measures to solve this problem is to raise the export growth rate to balance the increase of total imports. By 2010, China's exports will account for 6 percent of world trade. This does not seem too high as compared with the United States' 17 percent and Japan's 13 percent. It is about the same amount of exports as from the United States and Japan today. However, it is even still quite difficult to achieve this goal. The key lies in the type of commodity to be used in opening up to international markets. After the hegemonic system collapsed, the focal point of rivalry among the various powers in the world has shifted from military affairs to economy, science, and technology. International competition will be more fierce than ever before. China succeeded in expanding its foreign trade in the eighties because it took advantage of the opportunity when developed nations were adjusting their industrial structure and seized the market of the labor-intensive products they had given up. However, in carrying out foreign trade in the nineties, and particularly into the next century, China will enter the stage of competing with the developed countries on the same level. It would be much more difficult to achieve its goal. It is also hard to predict the growth rate in doing foreign trade.

8. Difficult problems in maintaining long-term high-speed growth and stability

High-speed growth without any inflation is the ideal in industrialization. Nevertheless, during 15 years of reform, relatively serious inflation has always flared up whenever there was high-speed economic growth. Inflation during the period of high-speed growth between 1984 and 1988 was caused by factors such as easy money and demand pull. It could also be attributed to stagnancy in agricultural production, the rapidly rising food price, and other structural causes. To a great extent, inflation since 1993 can be ascribed to structural reasons such as decontrol and the adjustment of the prices for foodstuff and services.

Some people believe that in China's future development, we will be able to achieve long-term high-speed economic growth without any inflation as long as we implement the policy of "controlling the supply of money and relaxing price controls." However, all the aforementioned analysis shows that China is a country in which resources are in great shortage. When 1.4 billion people take the path of industrialization, they will be forced to make use of all available domestic resources, thus raising the production costs of the agricultural and mineral products and touching off cost-push inflation over a protracted period of time. Meanwhile they will also need to buy a huge amount of resources from the world market and cause long-term imported inflation. The capital depreciation caused by inflation of non-trading factors will call for more money in order to maintain normal operation for reproduction. All this creates a continuous reverse pressure on the money supply, and calls for the need to put more currency into circulation. Therefore, China's high-speed economic growth in the future will always be accompanied by inflation. Although the government and economists dislike this phenomenon, they have little choice. Our long-term task is to correctly estimate cost-push inflation as well as imported inflation, and determine to what extent we should control inflation in order to work out a long-term money policy.

III. Stages, Focal Point and Policy For Development

1. By and large, there are two stages for long-term development up to 2010.

More than six years remain in the first stage between now and the end of this century. The main economic targets for this stage are as follows:

A. The average annual economic growth rate should reach 10 percent. Our population is expected to reach 1.4 billion up, and our per-capita GNP \$1,100 by 2000.

B. In the structure of the three types of industries, the ratio of primary industry should drop to 16 percent, that of secondary industry rise to 54 percent, and that of tertiary industry increase to 30 percent. In the structure

of industrial output value, the ratio of heavy industry should increase to 59 percent and that of light industry drop to 41 percent.

C. Demand for steel is expected to reach 156 million tons, demand for petroleum 380 million tons, output in ethylene production 7.8 million tons, output in power generation 1.18 trillion kwh, output of automobiles 5.5 million, and grain output 500 million tons.

D. The average annual export growth rate should reach 12 percent, and the total value of exports by the end of the century \$203 billion, with the total value of exports about the same as that of imports. Imports of petroleum are expected to reach 200 million tons and those of grain 20 million tons. The imports of primary products are expected to rise from 17 percent at present to 30 percent.

E. By the end of this century, the number of cities is expected to rise to 770 with the level of urbanization reaching 39 percent and the total urban population reaching 500 million. Each year, cities are expected to absorb 22 million rural people on average and the ratio of rural laborers to drop below 50 percent.

There are 10 years in the second stage from the beginning of the next century. The main economic targets for the second stage are as follows:

A. The average annual economic growth rate should reach 10 percent, and the population 1.5 billion by 2010 and the per-capita GNP \$2,700. The nation should join the ranks of medium-income countries and have basically completed the industrialization program.

B. Among the three industrial structures, the ratio of primary industry should drop to 10 percent; secondary industry should rise to 57 percent, of which industry accounts for 50 percent; and tertiary industry should rise to 33 percent. [sentence as published] In the industrial structure, the ratio of heavy industry should rise to 70 percent and light industry drop to 30 percent.

C. The demand for steel is set at 350 million tons and that for petroleum at 1 billion tons. The production output of ethylene should reach 28 million tons, that of electric generation 2.1 trillion kwh, that of motor vehicles 42 million and that of grain 500 million tons.

D. The average annual growth rate of exports should reach 7.5 percent, and the total value of exports \$4,100 [figure as published] with the total value of exports about the same as that of imports. Imports of petroleum are expected to reach 900 million tons and that of grain 200 million tons. The ratio of primary product imports should be raised to 70 percent.

E. By 2010, the number of cities is expected to reach 1,000 and the level of urbanization 60 percent. The total urban population is expected to reach 840 million with cities absorbing an average of 33 million urban population. [sentence as published] The proportion of rural labor force should drop to approximately 30 percent.

F. Taking into account our requirement to maintain a balance between the growth rate of family income and the economic growth rate, we should help increase the annual income of urban residents from the current level of 7,800 yuan to 40,000 yuan. Roaring demands for 10,000 yuan-class products such as housing and automobile will begin to emerge. Residents of China will start to enter the era of affluent life.

We work out the aforementioned economic targets in the two stages on the basis of the production and consumption levels of industrialized and well-developed countries at a time when their per-capita income reached \$2,500, and come up with the figures in accordance with the average growth rate.

2. Without any focal point, there will be no policy. The different major tasks in two different stages decide different development policies.

Due to this article's limited space, it is impossible to discuss in detail here many of the specific issues in working out policies. we can only discuss some of major policy issues.

The first stage extends to the end of this century. Our major task in this stage is to tackle issues of the establishment of the new system, the distortion of the investment and industrial structure, and professional training. We must also formulate our policies with these elements in mind.

A. In reforming its economic system with market demands in mind, China has already entered the stage of developing the production elements market. If it is said that the commodity market is a market of a lower form and that the production elements market a market of a higher form, we are not too far away from our final goal of establishing the socialist market economic system. Henceforth, with our market development entering a new stage, our macroeconomic controls in good order and the reform of the microeconomic system of property rights being carried out in depth, and at a time when we have entered the final stage in reforming the state, markets and enterprises, it is hoped that after several years of improvements and supplements, the framework of a brand new system will begin to take shape by the end of this century. Our reform program will continue to give a gigantic motive force to China's economic development in the nineties. Particularly, the reform of the system of property rights of the state-owned enterprises is of great significance. In recent years, investments made by the state-owned economic sector still accounted for 70 percent of total investments in the society, but the production output of the state-owned enterprises only accounted for 30 percent of the total national production output. This figure is also dropping. However, other economic sectors with their investments accounting for 30 percent of the total turn out products which account for 70 percent of the total national. This sharp contrast indicates the significant role of the reform program in raising the overall economic performance in the society

and solving the problem of fund shortage in developing our economy. Therefore, we still have to give top priority to reform before the end of this century.

B. The distorted investment and industrial structure which showed up in the course of high-speed growth in the past two years indicates that as of now, there is still no clear-cut leading industrial policy. Although the report on the "14th National CPC Congress" [quotation marks as published] mentioned the four major pillar industries, we still need to distinguish leading industries from pillar industries. Leading industries should be industrial groups whose growth rate is notably higher than the average value. Although they are not pillar industries right now, they make the largest contributions in the newly added production value, and they will eventually become pillar industries in the future. In general, these industries should be highly competitive on the world market, and they should be technology- and knowledge-intensive ones with higher added value. At present, pillar industries constitute the main bodies of China's industry, while basic industries are the industrial groups which provide the pillar industries and leading industries with energy, raw materials, transportation, and communications. Only by clearly distinguishing the leading industries and the pillar industries from basic industries and selecting a batch of industrial groups which develop high and new technologies to become leading industries, will it be possible to achieve the goal of adjusting and developing China's industrial structure in good order.

Our pressing task at present is to select a group of machine-building and electronics, metallurgical, chemical and light industries which are capable of earning a great deal of foreign exchange to become our leading industries. While importing and assimilating advanced technologies from abroad, these industries should not only try to reduce the pressure from imports, and export more goods to earn foreign exchange to import technologies, equipment, and raw and semi-finished products to manufacture import substitutes, but also aim their products at the world's most advanced science and technology and the international market so their own products will be able to withstand world competition at the beginning of the next century. This point is particularly important. When China seeks to compete with the world powers on the same footing at the beginning of the next century, it will not be able to open up to the international world, earn foreign exchange and import the primary products and raw materials needed to develop its industrial modernization program if it has no technological advantage and characteristics of its own. In selecting leading industries, we must particularly attach importance to the machine-building, electronics, and light industries which are able to earn more foreign exchange. All these industries turn out products which are labor-intensive and high in added value. Closely linked with other industries, they are suitable for a country such as China which has an abundance of manpower. Therefore, products from these industries are more competitive on

the world market. As for those leading industries we have selected, they must have clear-cut policies on financial affairs, credits and loans, trade, import of foreign technologies, domestic market protection, and so on in order to work out state policies in their favor.

C. China has started the development of its heavy industry in the nineties, and it will reach the climax at the beginning of the next century. Therefore, middle and primary school students trained today will become the backbone of the working class at that time. Although China has 180 million students in school right now, the proportion of primary school students is 72.8 percent, that of middle school students 25.7 percent and that of college students 1.5 percent (1992). In order to greet the advent of the heights of China's industrial modernization and develop factors of production in a balanced way, it is our pressing task to swell the budget for education on a comparatively large scale, build more middle schools and colleges, and increase student enrollment. The experience of developed countries shows that when the per-capita income of a country is in the \$2,500 bracket, the ratio of primary school students is about 50-55 percent, that of middle school students 40 percent and that of college students about 5-10 percent. As compared with the developed countries, China's main task in the development of education is to greatly increase the middle school student enrollment and enroll significantly more college students. All this must be accomplished by formulating specific policies or even through legislation.

The second stage ends in the year 2010. Our major task in this stage is to resolve issues on urbanization, regionalization, and the development of the service industry and international trade.

A. With the advent of the high tide of industrial modernization, China will also witness the climax of urbanization. On the basis of the aforementioned concepts, the urban population is expected to rise by an average of 22 million people every year within the next seven years until the end of this century and by 33 million people within the next 10 years until the beginning of the next century. In fact, we should start now to carefully work out plans to tackle issues concerning the development of old cities, the building of new cities, the arrangement of industrial division of labor in cities, and the supply of energy, mineral and water resources to urban areas. We must also formulate plans which differ from the current policies on the flow of population, labor markets, urban housing registration, and the social security system.

B. According to laws of industrial development, economic development will enter the stage of the service industry playing the leading role only after the per-capita income reaches \$2,500. However, China started its urbanization program quite late. Therefore, we must take some remedial measures in this connection in the course of developing industrialization. We should adequately develop the service industry on a relatively large

scale. As a result, the proportion of the service industry will rise to a certain extent. Therefore, we must work out a series of policies to develop the service industry in the course of promoting urbanization. Otherwise, development of our urbanization program will be delayed.

C. After going through high-speed growth in the first stage, conditions for forming relatively independent industrial systems in various economic zones will begin to mature. By 2010, approximately 12 relatively independent economic zones will emerge in China. Let us take the Shanghai Economic Zone, which includes Jiangsu and Zhejiang, as an example. The GNP in this economic zone in 1992 was 341.4 billion renminbi, and it will reach 1,330 billion yuan in 2005, representing a more than three-fold increase. This figure is about the same as the gross national product in the whole country in 1987. Duplicate economic construction projects in these aforementioned several economic zones are considered rational and necessary.

When we talk about the industrial structure being relatively independent, we mainly refer to the relatively independent structure in the heavy processing industry, because the heavy processing industry is closely linked with many other industries and different trades. Generally speaking, it must operate on a comparatively large scale. Therefore, the 12 economic zones are divided with relatively independent heavy processing industries, while forming a complete production network. For example, let us presume that the proportion of Chinese car-owning families in China will be 15 percent in 2005. (The proportion of car-owning Japanese families exceeds 20 percent. We assume that China's per-capita income in 2005 will be the same as Japan's current per-capita income.) Assuming that each automobile plant in China has two production lines and each of production lines can turn out 500,000 cars annually, we will need 15 automobile plants. In other words, we must have one automobile plant for each economic zone. If the market size determined by the product of the population and the per-capita income is basically the same as that required by economics of scale in 2005 in several of the economic zones to be established, it will be easier to resolve the issue of space distribution [kong jian fen bu 4500 7035 0433 1580] and effectively avoid waste caused by blindly developing duplicate construction projects. In order to prevent administrative boundaries from restricting the rational allocation of elements of production, we should plan to set up an administrative organ for each economic zone to centralize economic control in the zone and turn the boundaries of the economic zones into administrative boundaries.

D. By early next century, China will need far more energy and mineral resources and agricultural products than ever before. It will be difficult to satisfy its needs with domestic supplies. China will enter the era of importing energy and primary products in large quantity. With the development of industrial modernization, the leading industrial groups which have emerged in the

nineties will also become mature and begin to enter the world market in large number. In the export mix, processed heavy industrial products will replace light industrial products in playing the leading role. Beginning to advance towards internationalization, China's economy will genuinely become influential in the world. In order to greet the advent of this era, we must work out relevant policies to encourage our leading industries which are competitive on the world market to export their products. In imports, we must take into account the effect of our imports of the large amount of primary products from the world market, and work out relevant policies in foreign affairs and national defense from the strategic point of view for economic security.

China's current layout on transportation is designed on the basis of transporting a large amount of materials from the west and the north to the east and the south. Therefore, at first glance, there is always insufficient capacity in transportation towards the east and the south, while most of the freight cars towards the north and the west are empty. The several railway and highway trunk lines either under construction or in the plan for national economic development are still aimed at opening up the north-south passage in east China and the east-bound passage in west China. However, China's economy will enter the era of importing foreign resources in large quantity at the end of this century. There will be a distribution pattern characterized by "a closed western part with the eastern part open." This will fundamentally change the existing layout in transportation and communications. In the coastal areas in east China, there will emerge a large number of large steel works, oil refineries, and ethylene plants which rely on the import of petroleum and mineral resources. They will process these raw materials and energy resources and then send them to China's hinterland. Some primary products will be directly transported to China's inland. Casting away the image of being the base area to supply raw materials to east China, west China will make use of its local natural resources to develop its own processing industries. Therefore, in the future, east China will transport its materials to the west instead of witnessing a great deal of materials transported from the north to the south. Quickening the pace of building coastal harbors and developing a transportation network connecting east China and west China will become more urgent than ever before. Western China will develop its own network for transportation near places where its own natural resources are located. These structural changes in trading and transportation caused by changing a industrial structure should be taken into consideration from now on when we map out our major development plans.

E. The era of China's ageing population will arrive at the beginning of the next century. Following the growth of the ageing population, the establishment of a social security system will become more important than ever before. We must work out relevant policies and raise funds in this connection as soon as possible.

***S&T Vice Minister Stresses Sustainable Development**

95CE0229A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese
No 6, 24 Nov 94 pp 5-7

[Article by Deng Nan (6772 2809), vice minister of State Science and Technology Commission: "China Must Take The Road Of Sustainable Development"—editor: Luo Guifen (5012 2710 5358)]

[FBIS Translated Text] I. Why the Chinese Government Had To Draw Up "A 21st Century Agenda for China"

In view of the state of the nation, it is imperative that the Chinese government draw up and organize the implementation of "A 21st Century Agenda for China" and take the road of sustainable development. China is a developing country with relatively few natural resources and a shaky economic base. At present we are faced with the herculean tasks of developing the economy, eradicating poverty in a hurry, and raising popular living standards.

Since 1978 China has adhered to its reform and open policies steadfastly. In 1993, China set the goal of creating a socialist market economy. Right now it is in a critical period as it negotiates the transition from the traditional planned economy to a socialist market economy. With science and technology flourishing and the economy and society thriving, the situation in China today is excellent. Bursting with confidence, the Chinese people are racing to meet a glorious future.

However, we also must clear-headedly realize that fast economic growth has been accompanied by mounting population pressure and other pressures on resources and the environment. We have paid a high price for double-digit economic growth.

China has a civilization going back 5,000 years. It has created a glorious culture, accumulated a wealth of experience, and made significant contributions to human development. However, it also has burdened itself with excessive population growth, which has become the paramount problem for the nation when it comes to dealing with the environment and development. After harnessing nature in backward ways for 5,000 years, the Chinese nation has reduced the land on which it depends for its survival to a more and more ecologically fragile state. Rare is the country that is as disaster-prone as China. These days earthquakes, typhoons, storms, flooding, drought, insect pests, and other calamities cause 100 billion yuan in damages each year. Moreover, China is short on natural resources on a per capita basis and, on a per capita basis, accounts for just 28 percent, 32 percent, 14 percent, and 32 percent of the world's total freshwater, farmland, forest, and grassland resources, respectively.

Right now we are faced with the task of economic development. There was hardly any industry to speak of

in the early days of the PRC. Agriculture, too, was very backward. The past four decades of construction has been highly successful, but many a time we took a circuitous route. The overall standard and quality of industry are not high. Energy and resource consumption is high while profit margins are low. The mix of energy, dominated by coal, has caused severe air pollution. Each year 36 billion tons of sewage are discharged nationwide. At present the industrial sewage treatment rate is only 68 percent and the domestic sewage treatment rate is less than 10 percent. Only 30 percent or so of solid waste and domestic garbage are treated. Rapid economic growth has only worsened excessive resource consumption, ecological degradation, and environmental destruction.

Development and environment are a pair of contradictions; they both nurture and constrain each other. It will take a huge infusion of funds to improve the environment. Only when their per capita GNP reached thousands of dollars did many nations launch comprehensive environmental protection. The current per capita GNP in China is a mere \$400. However, if we fail to tackle the environmental problem, it will become a serious constraint on future development.

We are confronted with a dilemma today. Lacking the resource edge and environmental capacity that some other nations had during their drive for industrialization, we can no longer continue to go down the well-trodden path of "pollute first, treat later." With our limited national resources and shortness of funds and technology, we will have enormous difficulty pumping significantly more investment dollars into ecological preservation and environmental protection in the foreseeable future.

Our transition from one economic system to another has also been beset with problems; for instance, the development philosophy of stressing quantity and slighting quality remains deeply entrenched in public thinking. As for the management system, economic development remains divorced from resource and environmental protection.

Faced with this grim situation, we must explore diligently and practice boldly to chart a path leading to a positive cycle which would perpetuate the kind of development that balances economic development with population, resources, and the environment. We have no other choice.

By drawing up "A 21st Century Agenda for China" with a sustainable development strategy, the Chinese government fulfilled a commitment to the 1992 UN conference on environment and development. More important, it gave China an opportunity to make careful choices based on its own experiences, lessons, and needs. China will rely mainly on its own resources to implement the "Agenda." At the same time, it hopes to cooperate closely with the international community. Where the environment and development are concerned, China cannot remove itself from the world and vice versa. We

expect the world community to help China without, however, forgetting our own obligations to it. Nevertheless, as a large developing nation, we know that no amount of foreign assistance, whatever its magnitude, can help us solve our problems if we do not make unremitting efforts.

The Chinese nation is a long-suffering one. Countless times did our forefathers rise from disaster. Today China finds itself at a point in history that is best suited for self-development. The problems we encounter are development-related problems, precisely what the rest of mankind is encountering as well. We are willing to work hard together with our friends from all nations to build a "common future."

II. How the "Agenda" Was Drawn Up

A decision was taken by the State Environmental Commission in July 1992 to draw up "A 21st Century Agenda for China." Accordingly a leading group was set up composed of section chiefs from the State Planning Commission and State Science and Technology Commission and deputy section chiefs from the State Economic and Trade Commission and State Environmental Protection Bureau to organize and guide the formulation of the agenda and related priority projects as well as their implementation. A working group was created under the leading group comprising more than 300 experts from 52 State Council agencies and organizations to be responsible for actually writing up the agenda. A "A 21st Century Agenda for China" management center was established to handle day-to-day matters, provide routine services, and coordinate work. The UN Development Program [UNDP] attached a good deal of importance to this undertaking and included its formulation and implementation as one of its 21st century capability development projects.

The drawing up of the agenda took 17 months, from August 1992 to January 1994 when it was submitted to the State Council for examination and approval. There was excellent cooperation from all government agencies, localities, and social organizations, which just goes to show that the search for a formula for sustainable development has become a top issue for all government agencies, localities, and social organizations as they ponder the future. Certainly, it also took the deepening of understanding, the achievement of a consensus, and the intensification of work to turn what began as a collection of departmental perspectives into a total strategy for coordinated development at the national level complete with an action plan. In October 1993, an international symposium on China's 21st century agenda was convened in Beijing to solicit opinions and suggestions from all quarters, both domestic and foreign.

The "Agenda" sums up succinctly the major schools of thought prevailing in the State Council and various agencies on sustainable development and China's priorities. It is a powerful policy guiding tool at the moment.

As the "Agenda" was being written up, we also organized the various agencies to work together to draw up plans for the first batch of priority projects to serve as the agenda action plan, the launching point that would set the implementation process in motion.

III. Some Considerations on Organizing the Implementation of "China's 21st Century Agenda"

The "Agenda" contains a total strategy for sustainable development and presents an attractive blueprint for China's future. "A 21st Century Agenda for China" priority project plan was drawn up to implement the agenda and is a concrete expression of sustainable development. By implementing the strategy and projects, we hope to steer China not only onto a path of economic growth in the future, but also onto a new course of sustainable development where science and technology, the economy, and society are in harmony with population, resources, and the environment. We must apply ourselves to their implementation on all fronts: planning, laws and regulations, policy, publicity, and public participation.

1. In accordance with the decision of the State Council, "A 21st Century Agenda for China" is a major guiding document that shall oversee the formulation of the mid- and long-term national economic and social development plan. Its core philosophy and contents will find expression in the Ninth Five-Year Plan (1996-2000) and the mid- and long-term plan covering the years up to 2010. The State Council has ruled that every agency must include appropriate projects in the "Agenda" in its development plan. Given limited national resources, we must implement our blueprint in stages, set priorities, and gradually incorporate it into national and local plans at all levels. The dissociation between economic development and environmental protection must be corrected at its root and environmental treatment spending must be increased as a percentage of the GNP over time.

The formula for sustainable development in China assumes many forms and is to be achieved in a variety of ways. A host of plans, already formulated or in the process of being drawn up, such as the "Chinese Environmental Action Plan," "87 War on Poverty Plan," and "Chinese Biodiversity Protection Action Plan," all represent concrete actions taken to implement the sustainable development strategy within the overall framework of the "Agenda."

2. Drawing up plans for priority projects. We have presented at this conference the plans for the first batch of "A 21st Century Agenda for China" priority projects. They have attracted the interest of many countries and international organizations, some of them already expressing a desire to cooperate with us. We will continue to formulate plans for the second and third batches of priority projects in the future as a practical way of turning the "Agenda" into reality. The "21st Century Agenda" management center is in charge of the day-to-day work of developing priority project plans in

accordance with the decision of the State Planning and State Science and Technology Commissions.

3. Formulate and enforce laws, regulations, and policies that would promote sustainable development. We must fully exploit the power of laws, rules, and policies and put the necessary economic tools to the best possible use so that the principle of sustainable development not only finds expression in macroeconomic regulation and control by the government but also becomes an integral part of everyday social and economic activities. For instance, in transforming the operating mechanism of state enterprises, fostering and developing the market system, establishing and perfecting a macroeconomic regulation and control system, and deepening rural economic reform, S&T and educational reform, and reform of the foreign economic system, we must take great pains to balance economic development with population, resources, and the environment. Furthermore, by deepening reform and deploying economic tools, we should steer funds from all sources, including the government, the private sector, and enterprises, in the direction of social and economic activities that will facilitate sustainable development, such as development of environment-friendly technology, clean production systems, resource recycling, and comprehensive resource utilization.

4. Encourage extensive participation by all sectors, localities, social strata, and the masses. In the days ahead we need further close cooperation among the sectors to implement the "Agenda." In the course of implementation, moreover, the sectors must go out of their way to work hand in hand with the localities to fully tap the latter's initiative. Implementation of the "Agenda" also requires broad participation by the masses so that everybody abides by shared principles on his own initiative. For this reason, we need to step up publicity and training. The goal is to make the "Agenda" a household word and let everybody truly understand that sustainable development is the only road to resurgence for the Chinese nation.

5. Strengthen international cooperation. Implementation of the "Agenda" is a response to the "Agenda for the 21st Century" of the United Nations and constitutes a key component of the drive for sustainable development in all human society. We welcome all nations to participate in its implementation, which effectively means taking part in the magnificent enterprise of bringing about sustainable development for one-quarter of the world's population. We sincerely hope that the world will cooperate and earnestly fulfill all the obligations put forward at the UN environment and development conference, vastly increase their capacity to implement the "Agenda" of the United Nations, provide sufficient additional funds on a global scale for developing nations including China, and transfer environment-friendly technology on favorable or non-commercial terms.

The kind of international cooperation described above should be based on mutual trust and mutual benefit. We

are willing to find new areas of cooperation, both multilateral and bilateral, in the course of advancing the great cause of sustainable development for China and the world community.

Taking the road of sustainable development is an important task entrusted to us by history. In the spirit of reform and permanent searching, we must march forward courageously, trying our best to avoid circuitous routes and minimize mistakes. Surely our enterprise will succeed after the unremitting efforts of a few generations, starting today.

***Drafting Committee Member Views New Securities Law**

95CE0194A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 47,
28 Nov 94, pp 24-26

[Article by Chiang T'ao (3068 3447): "Securities Law Drafting Committee Member Professor Cao Fengqi Talks About Chinese Securities Law Being Drafted"]

[FBIS Translated Text] It has already been ten years since China established a level-one securities market and more than three years since it established a level-two securities market. Although the draft of the securities Law—a basic law to act as a standard for the securities market—has been changed several times in the past some two years and has been submitted three times to the Standing Committee of the National People's Congress for examination and approval, it still has not been implemented, a matter of great concern abroad and at home. What are the characteristics of the law? Especially, what are its normative principles and main content? Having heard that Professor Cao Fengqi [2580 7685 1477], vice president of Beijing University's Guanghua Management Academy and member of the securities law drafting committee, had participated in the drafting of the securities law from the beginning, this reporter conducted a special interview with him the other day.

Five Main Characteristics of the Securities Law Draft

As Professor Cao explains it, the draft and content of the securities law have the following five characteristics:

The legislation relies on social forces and is rather open. Unlike other draft laws that are mainly drafted by government departments concerned, the securities law is being drafted by a special committee of social forces and experts commissioned by the Standing Committee of the National People's Congress and is open. From July 1992 to now, they have repeatedly solicited opinions from various sectors and have revised the draft more than ten times. It can be considered a law that draws on collective wisdom and absorbs all useful ideas.

It begins from China's actual situation. China's securities market still is an immature market in development. It has not formed a complete market system capable of

self-adjustment. So it still cannot totally copy the methods of Western countries for controlling securities markets. For example, the draft securities law stipulates that the issuing of stocks and corporate bonds must be approved of by the Securities Control Department. That is to use administrative means to control issues and the number of companies on the market. Implementing an "approval system" ultimately still is creating the conditions for the transition to a "registration system."

It takes the current situation into consideration and leads to a certain extent. The securities law's concentration on standard stocks and corporate bonds drives from consideration of the current situation, while also stipulating that the law will be applicable to the issuance of all securities (with the exception of government bonds and state financial bonds) within China. The stipulations regarding the purchase of companies on the market and those about opening up non-centralized competitive price trading markets are both based on long-term considerations.

It is legislation that adheres to a strict spirit. The law has strict rules about insider trading, manipulating the market, and other securities cheating, and any activity that constitutes a crime will be severely punished. It strictly limits financial securities activities of securities firms and stipulates limits to the individual undertakings of securities firms. In the initial stage of the development of the securities market with non-standard issuance of various securities and activities of people engaged in trading, it appears necessary to have some strict regulations.

Care has been taken to see that it dovetails with other laws and regulations. Before the securities law was formulated, and while it has been in the process of being formulated, the state has promulgated some laws and administrative regulations regarding securities markets and companies. The Securities Law must be careful to dovetail with these laws and regulations, and it must be especially careful about dovetailing with the corporation law.

Embody the Principle of "Openness, Fairness, and Impartiality"

Professor Cao told this reporter that this August the draft of the securities law was submitted for approval to the Standing Committee of the National People's Congress for the third time. The new draft is aimed at effectively supervising and controlling securities markets, insuring the legal rights and interests of investors, safeguarding economic order in society, and promoting the development of the socialist market economy by standardizing the issuance and trading of securities. So we should adhere to the principle of "openness, fairness, and impartiality" in issuing and trading securities. In accordance with this principle, the draft has detailed regulations regarding securities issuing and trading activities. Professor Cao sums these up under the following three aspects:

First, regulations regarding issuing and trading.

- The issuance of stocks and corporate bonds must be examined and approved by the State Council Securities Control Department. If a stock company uses its profits to apportion new stocks or allot new stocks to its original stockholders, the total of the new stocks that it apportions and allots that year, calculated on the face value of the stocks, cannot exceed 30 percent of the total original capital stock of the company.

We should list trading on securities exchanges by approving stocks on the market. Non-market company transferable stocks should be traded on legally established non-centralized competitive price exchanges. Corporate bonds can be listed on securities exchanges or they can be traded on non-centralized competitive price exchanges.

There are limitations on the following personnel holding stocks or buying and selling stocks: 1) Professional staff of securities exchanges and securities companies, staff of the Securities Control Department, and other personnel prohibited by law or administrative regulations from trading stocks. Those not allowed to hold or buy and sell stocks for a term of office or a period of time designated by law also are not allowed to accept stocks donated by other people. 2) Personnel concerned with such documentation as stock issuing instrument auditing reports and asset evaluation reports or with providing legal opinions are not permitted to buy and sell that type of stock during the period that the stock is under consignment and for six months after it expires; and personnel concerned with auditing such documentation and opinions are not permitted to buy and sell that type of stock during the period that the stock is under consignment and for six months after it expires. Personnel concerned with such documentation as auditing reports, asset evaluation reports, or with providing legal opinions on instruments of companies on the market are not permitted to buy and sell that type of stock before the documentation described above is made public and for five days thereafter. 3) Stockholders holding 10 percent or more of the stock in companies on the market should report to their company within three days of buying or selling their company's stock. If that type of stockholder sells off the stock that he holds in the company within six months of buying it or buys it again within six months of selling it, the profit that he makes from it will be returned to the company.

Second, establish a system for publicizing information.

The system that the Chinese securities market currently has for revealing information is not perfected. This is mainly indicated by the fact that the publication of information is not timely, not accurate, not ample, and even that false information is created and disseminated, causing confusion on the market and misleading investors. To standardize and legalize the publication of information, the draft has the following regulations regarding the system for publishing information:

- After the issuance of stocks or corporate bonds has been approved, the issuer must announce the explanation of the solicitation of stockholders or the means of raising corporate bonds.

A semi-annual report must be published each fiscal year on the financial and management situations of publicly issued stocks and corporate bonds and the trading on the exchange of the stocks and corporate bonds.

Companies on the market should submit midyear and annual reports to the State Council Securities Control Department within 45 days of the end of the half year and within 90 days of the end of the year each fiscal year and publish them.

When a major incident occurs that can have a rather great influence on stock trading of companies on the market, and investors do not know about it, the company on the market should provide an interim report to the Securities Control Department and the securities exchange and publish it.

Report and announcement documentation from issuers on market companies and consignment organizations must be true and complete and must not have false records or misleading statements or major omissions. If the above situation is discovered and it causes investors to suffer damage in trading securities, the personnel and organizations should be responsible for compensation, and the trustees, supervisors, and managers of the company and consignment organization should bear joint liability. The Securities Control Department has the authority to oversee the reports and announcements of companies on the market.

Third, prohibited trading activity.

To guard against unlawful trading activities and have the securities market embody fairness and safeguard the legitimate rights and interests of investors, the draft securities law stipulates a list of prohibited trading activities. The main ones are:

- People with knowledge of inside information are prohibited from using the inside information to conduct securities trading activities. People with knowledge of inside information include trustees, supervisors, managers, assistant managers, and major stockholders in issuing companies, and securities exchange control personnel and personnel connected with securities intermediary and service organizations. A list also is given of what inside information includes.

It prohibits anyone from using improper means to obtain improper profits or transfer risks.

It prohibits the people concerned from fabricating and disseminating rumors or false information.

It prohibits securities companies and their professional staff from engaging in cheating that damages the interests of investors.

It prohibits state organization workers and members of securities exchange and securities company professional staff from diverting public funds to buy and sell securities.

Professor Cao emphasized that although there cannot be an exhaustive list of prohibited activities, incidents, and methods and prohibitions of staff use of insider trading, and just because there is a legal regulations does not mean that this type of incident will not happen, these specific workable regulations can play an important part in safeguarding against insider trading, manipulation of the market, and other securities swindles.

Integrating the Three Aspects of Control—Administration, Laws, and Autonomy

Professor Cao said that China's securities market is a new and developing market, and we currently still lack experience in how to effectively supervise and control this market. Drawing on the base of experience of developed countries, in accordance with the specific situation of China, and premised on centralized unified management, we should establish a securities control system integrating administrative, legal, and autonomous controls. The draft law further reflects this control system mainly through the following few aspects:

The State Council Securities Control Department exercises unified control over securities markets throughout the country. To counter the problems of the Chinese securities market control having multiple controls, multiple administration, and weak control departments, the draft of the securities law includes the concepts of the State Council-established National Securities Control Commission and centralized control and supervision of securities markets throughout the country. After discussion and revision, the recent draft stipulates that "the State Council Securities Control Department will carry out centralized supervision and control of securities markets throughout the country."

The State Council Securities Control Department has the following main powers: 1) To formulate control regulations and trading rules for securities markets and by law exercise examination and approval powers; 2) by law to supervise and control the organization of securities exchanges, securities companies, and securities exchange service organizations, the scope of their business, and how they carry out their professional responsibilities and management activities; 3) by law to formulate qualifications and standards for people in charge of securities exchanges, securities companies, and securities exchange service organizations and oversee their implementation; 4) to lead and oversee the organization of securities professional associations and the performance of their professional responsibilities; and 5) by law to investigate and deal with illegal conduct in securities exchange activities.

The draft also stipulates that "the State Council Securities Control Department as required can establish local

agencies authorized to exercise supervision and control authority in accordance with laws and administrative regulations. The agency will be under the dual leadership of the State Council Securities Control Department and the State Council designated provincial or regional municipal people's government. In the formulation of policy and professional regulations they will be mainly led by the State Council Securities Control Department."

Second, autonomous control of securities professionals.

They will perform the function of securities professional associations first. The draft law specially establishes a standard securities professional association and determines that the securities professional association will be autonomously organized by securities companies and be a group legal person in society. Securities companies must join the securities professional association.

Securities exchanges should also become trading organizations with autonomous control responsibility and capability. The draft of the securities law stipulates that "the securities exchange is a nonprofit legal person providing a centralized securities competitive price exchange and implementing a membership system." It sets rather detailed standards for such things as the establishment, bylaws, membership qualifications, and member duties of the exchange; the organizational structure of the exchange; the development and responsibilities of the general membership, the board of directors, the board of supervisors, and the general manager; and trading rules. The exchange can carry out totally autonomous control by internally perfected organizational structures, trading rules, and explicit responsibilities.

Finally, they should mediate and arbitrate securities disputes. The draft of the securities law has a special "arbitration" section. When disputes occur among the people concerned with the issuance or trading of securities, they can be resolved through consultation or mediation. If the people concerned do not want to resolve disputes by consultation or mediation or the consultation and mediation are unsuccessful, they can apply to the arbitration organization for arbitration in accordance with a written arbitration agreement reached before or after the fact. The method of adopting mediation or arbitration to resolve securities disputes is an important means of securities market autonomous control.

The Securities Exchange Systems Will Become Multileveled

Professor Cao said that although the Chinese securities market has developed a great deal in recent years, it still is not very complete, which is highlighted by its not having formed a multilevel exchange system. Especially now that China only has two securities exchanges, at Shenzhen and Shanghai, it is very difficult to satisfy the needs for new market company stocks enter the market and for different levels of public corporations to trade

stocks. He revealed that the draft securities law, in addition to affirming the place of securities exchanges in China's securities exchange system, also will plan and open up noncentralized competitive price securities exchanges, and affirm and promote the establishment of a multilevel securities exchange system by legislation.

He revealed that the draft securities law stipulates that securities companies can operate six businesses: 1) securities brokerages; 2) securities consignment businesses; 3) businesses developed from exclusive rights to sell securities; 4) businesses that buy and sell bonds; 5) government bonds that the State Council designates that securities companies can sell on commission or as agents; and 6) businesses that are entrusted to handle both the storage and registration of securities.

The draft law stipulates and affirms the central place of securities exchanges in China's securities exchange system mainly in the following respects: 1) Legally approved listed company stocks should be posted for trading on securities exchanges. The exchange value of securities traded on the market at securities exchanges is determined in a centralized competitive price manner. 2) Investors should open securities exchange accounts at securities companies and entrust the securities company that opens an account for them to buy and sell securities for them. 3) Securities exchanges in accordance with relevant regulations handle the temporary stoppage, resumption, or termination of marketing listed companies. When normal trading in securities is affected by a sudden occurrence, the securities exchange can adopt technical measures to stop trading; and because of an unavoidable sudden occurrence or to maintain normal order in securities trading, the securities exchange can decide to temporarily close the market. 4) The securities exchange by law formulates rules concerning centralized competitive prices of securities and regulations controlling members of the securities exchange, professional plans for member on-site brokers and people clearing and settling accounts, as well as the professional staff of the securities exchange, and reports them to the Securities Control Department for approval.

At the same time, in order to meet the ever-increasing needs of the securities market, the draft securities law plans to open up other content to securities exchanges, proposing opening up and developing noncentralized competitive price trading securities exchanges (i.e. trading markets outside the market). Professor Cao said that it has these standards: The first is the obvious distinction from the securities exchange. It does not have a brokerage system like the exchange, but makes transactions directly at the securities company counter. It also does not do business in a centralized competitive price manner, but its transactions are generally negotiated prices. The second is the obvious distinction from the original counter trading. It has overcome the defects of rampant speculation and difficulties of controlling original counter trading and practices centrally quoted prices, decentralized transactions, and unified

accounting. The draft law stipulates that "a joint price quoting system be established among securities companies that are approved for a permit to engage in trading of securities not posted on the market and pricing information is to be provided to securities companies and customers." This way, at least regional networks and unified prices can be realized, and the use of prices that are not uniform to engage in illegitimate speculation can be reduced.

Hopes For Early Implementation of the Securities Law

Professor Cao explained that in order to maintain order in the securities market and ensure effective implementation of the law, the draft securities law also makes rather systematic stipulations about legal responsibility. Regarding various unlawful practices in the issuing and trading of securities, and based on the determination of responsibility, the person responsible must assume relevant civil, responsibility, or criminal responsibility.

When this reporter asked when the securities law will be implemented, Professor Cao did not give a direct answer. He said that the draft law is presently still in revision. An important viewpoint still being weighed is the belief that it still is not too mature and complete. Professor Cao indicated that with China's securities market still immature, it is extremely difficult to formulate a totally mature and complete securities law. However, maturity is relative. An immature securities market precisely needs legal standards before it can be pushed to mature as quickly as possible. He indicated that as a member of the drafting committee for that law, he hopes that the securities law will be implemented as early as possible. This is extremely important both for the healthy development of the Chinese securities market and the legal mediation of the ever-increasing securities disputes. He said that even though the officially promulgated securities law could still have some changes, the outline of the Chinese securities legal system is clear.

Bohai Oil Fields Increase Self-Production Output

SK0102083595 Beijing XINHUA Domestic Service
in Chinese 0939 GMT 27 Jan 95

[By reporter Man Xuejie (3341 1331 2638)]

[FBIS Translated Text] Tianjin, 27 Jan (XINHUA)—According to a reporter's dispatch from the Bohai oil fields, the output of oil and gas by the oil fields in 1994 has topped the record of 2 million tonnes and showed a 510,000 tonne net increase and a 46 percent increase over 1993. The output has enabled the oil fields to enter the ranks of the 10 largest oil fields in China.

The Bohai oil fields are the first oil production units in China to have participated in cooperation projects with foreign countries. They turned out 1.63 million tonnes of crude oil, 380 million cubic meters of natural gas, and 30,000 tonnes of liquefied petroleum gas in 1994. They actually turned out 2.05 million tonnes of crude oil

calculated in terms of equivalent quantity. Of this output, that scored by the fields under cooperation projects with foreign countries totalled 720,000 tonnes and that scored by the fields run by the state totalled 1.33 million tonnes. The annual output of the state-run oil fields has surpassed that scored by the oil fields under cooperation projects with foreign countries. This means that the development of oil and gas in the Bohai oil fields has been turned from a major operation under cooperation projects with foreign countries to an operation conducted by the country.

Finance & Banking

Central Bank Official on Higher Interest Rates

HK3101151595 Beijing RENMIN RIBAO in Chinese
2 Jan 95 p 2

[Interview with Dai Xianglong, Vice Governor of the People's Bank of China, by unidentified RENMIN RIBAO reporter in Beijing; date not given: "Why Should the People's Bank Increase the Interest Rate for Loans to Financial Institutions—Dai Xianglong, Vice Governor of the People's Bank of China Answers RENMIN RIBAO Reporter's Questions"]

[FBIS Translated Text] Beijing [no date as published] (RENMIN RIBAO)—The People's Bank of China has decided that, starting from 1 January 1995, the annual interest rate for loans to other financial institutions are to be increased by an average of 0.24 of a percentage point and, accordingly, the annual interest rate for loans extended by various financial institutions on fixed assets will be raised by an average of 0.72 of a percentage point. This reporter has interviewed Dai Xianglong, vice governor of the People's Bank of China, regarding the adjustment in interest rates.

[RENMIN RIBAO] Why should the People's Bank increase the interest rates for its loans?

[Dai] The People's Bank extends loans to other financial institutions, specifically, they are re-loans, which constitute a major source of loans to be extended by those financial institutions, especially the Industrial and Commercial Bank, the Agricultural Bank, the Construction Bank, and the Bank of China. The tightness and relaxation of loans and the adjustment of interest rates of the People's Bank will affect the lending capacity of other financial institutions. In this way, it is possible to adjust the money supply in society and affect prices.

The year 1994 saw a fairly good momentum in the development of the national economy as well as the smooth introduction of important reforms in the areas of taxation, banking, investment, prices, foreign exchange, and foreign trade; however, on the other hand, the indexes of retail prices, especially those of foodstuffs, rose by an excessively large margin. Therefore, the primary task in macroeconomic regulation and control in 1995 is to check inflation. In carrying out this task, we

must employ various economic, legal, and administrative vehicles in a coordinated way. As far as the central bank is concerned, it is necessary to adopt an adequately tight monetary policy. To this end, in light of the spirit of Central Economic Work Conference and with the approval of the State Council, the People's Bank has decided to appropriately raise the interest rates on loans for financial institutions, which are allowed to increase the interest rates of some of the loans they provide. Although the margin by which the rates have been adjusted is not great, the adjustment sends an important message that the central bank is adopting an adequately tightened monetary policy, which will help reduce the investment in fixed assets, control inflation, and support those productive operations that generate good returns.

The current interest rate adjustment is not the same as the previous ones. In the past, the central bank used to focus on adjusting the interest rates on the deposits and loans of financial institutions. On this occasion, however, the interest rates of re-loans of the central bank has been adjusted, with the follow-up adjustment of interest rates on part of the loans of other financial institutions. This is a reform applied by the central bank to adjust money supply and demand by means of the interest rate.

[RENMIN RIBAO] Why is it necessary to increase the interest rate on loans for fixed assets while canceling the differential preferential interest rates on loans for capital construction in some sectors?

[Dai] Currently, a major cause of the price increases is the unduly rapid growth in the scale of fixed assets investment, which has resulted in the excessively fierce increase in total social demand. Recently, the tendency of unduly rapid growth in fixed assets investment has been initially brought under control, and the growth rate in investment has slowed down. Nevertheless, owing to the large base of investment scale and the large number of projects under construction, the task of restricting the scale of investment in fixed assets is still quite difficult. In this case, after the People's Bank of China has raised the interest rate for re-loans, other financial institutions are going to adequately increase the interest rates on loans for fixed assets from 1 January 1995, with a view to gradually changing the long-standing situation of comparatively low interest rates for fixed assets loans and keeping a tighter rein on the excessively fast growth of fixed asset investment. In order to more satisfactorily control fixed asset investment, it is insufficient to rely exclusively on raising the loan interest rates. It is also necessary to deepen the reform of the investment management structure and apply various economic measures and necessary administrative measures to put right the present inversely-driving mechanism of funds utilization with respect to fixed asset investment.

Since 1986, national banks have instituted preferential interest rates on loans for the key construction projects in 13 sectors, including coal mining, electricity, exploitation of crude oil, energy-saving measures, and rail

services. The preferential programs under which the normal interest rates for fixed assets loans are pushed downward by 10 to 30 percent have played an important role in supporting the expansion of these sectors. After many years of restructuring and development, great changes have taken place in those 13 industries, most of which, under the administration of the central government, have fixed the prices of products and service charges according to operational principles. With the lowest annual differential interest rate on three-year loans at 8.64 percent, even monetary enterprises have found it difficult to continue. After the differential interest rates on loans for capital construction in the 13 industries have been abolished, and uniform interest rates on loans for capital construction have become effective, banks will continue to give priority to granting loans to the above-mentioned industries, provided the situation of prospective loan receivers are identical. The newly established State Development Bank will give active support to the said sectors in terms of loans. With regard to some key state projects, the departments concerned may discount the interest rate according to the regulations.

[RENMIN RIBAO] Why has this adjustment of interest rates involved no changes in the interest rates on savings deposits of urban and rural residents, units, or circulating funds?

[Dai] For quite some time, the problem of interest rates has become a widely discussed topic in our society, and people have been strongly voicing the demand for an increase in interest rates, especially deposit rates. In terms of the rising price margin, the prevailing actual interest rates are negative; but in terms of nominal interest rates, they are not low at all. In 1993, deposit rates were raised twice, with the annual interest rate on one-year deposit already reaching 10.98 percent. The renminbi deposit rates have been relatively high in comparison with those for foreign currency deposits. In addition, the state has taken measures to maintain the values of time deposits of three years and above. As deposits are the main source of funds for a bank, raising the interest rates on deposits is bound to increase the bank's fundraising costs, hence leading to an increase in interest rates for loans. Loans currently make up the largest proportion of the production and operational funds utilized by enterprises in our country. Consequently, their average profit rate remains low, and this is especially true for state-owned enterprises. If the interest rates on circulating funds were to be further increased, the costs of production and operations would inevitably be increased and prices would be pushed up accordingly. This time, therefore, no adjustment has been made in the interest rates on both resident and organization deposits as well as on the bank loans for circulating funds. The solution to the problem of the actually negative deposit rates lies primarily in restricting the rising margin of prices instead of greatly raising the interest rates on deposits and all loans.

[RENMIN RIBAO] Besides the adjustment in the interest rates on re-loans and loans for fixed assets, have any changes been made in the way interest is calculated?

[Dai] In addition to the interest rate adjustment, we have modified the method of calculating the interest on all loans (including those for circulating funds, fixed assets, and re-loans). The very day this interest rate adjustment becomes effective will be taken as the demarcation line. For any loans extended after that date, the interest shall be calculated according to the rates quoted by the extending bank on the day the loan contract is signed, regardless of any possible rate adjustments made henceforth. With respect to the various loans already extended before the said adjustment date, the interest shall be calculated according to the originally specified rates until the loans fall due. Beyond the expiration of the loan contracts, the interest rates of loans quoted by the bank on the very day shall prevail. This is referred to as "old rates" for old loans and "new rates" for new loans. These modified calculations of interest rates on loans have simplified the calculation procedures by wiping out the contradiction caused by the old practice by which the pre-adjustment loan interest is calculated according to the rates specified in different periods, while the deposit interest is calculated according to the rate on deposit receipts. Now that the interest calculation of deposit rates and loan rates have been unified, we will gradually make our interest calculations consistent with the methods used worldwide.

[RENMIN RIBAO] How greatly will enterprises be influenced by this increase in interest rates on loans for fixed assets?

[Dai] The influence will be relatively small. For one thing, the scope of adjustment of the loan interest rate is small because only the interest rate for fixed assets loans has been raised, and the interest rate on circulating funds loans—which make up more than 70 percent of the loans extended by our national banks—remain unchanged. Furthermore, the margin of this interest rate adjustment is relatively small: After the interest rates on fixed assets loans were raised by an average of 0.72 of a percentage point, the average level of all the interest rates on loans extended by our national specialized banks has been raised by only 0.15 of a percentage point. Lastly, thanks to the modification of the interest calculations, this rate adjustment will only affect the loans to be extended on and after 1 January 1995, while no extra interest shall be paid for the loans extended before this date. These three factors mean that this rate adjustment will help control fixed assets investment but will have little effect on most enterprises.

[RENMIN RIBAO] What problems exist in the current interest rate structure and interest rate management system? What will characterize the orientation for future interest rate reform?

[Dai] With the gradual deepening of our economic restructuring and, especially, the reform of banking

system, the People's Bank has carried out a series of reforms in both the interest rate structure and the interest rate management structure. Between 1979 and 1994, the People's Bank of China adjusted the deposit rates and the loan rates 12 and 13 times respectively, adjusted the variety and grades of some interest rates, unified the interest rates of personal and organizational deposits, designed grades for loan interest rates according to different loan terms, and established the interest rate structure of the central bank. The once highly centralized interest rate management system has gone through two phases: Transferring to lower authorities the right to float interest rates and setting up a new management system.

However, the reform of our interest rates is now still in a start-up stage. The general level interest rates is on the low side; the structure of interest rates is not quite rational; and the management of interest rates is unduly centralized. Therefore, in light of the spirit of the resolution of the CPC Central Committee and the State Council on reforming the banking structure, it is necessary to further deepen the reform of interest rates along with the deepening of pricing, investment, and enterprise system reforms. In light of the gradually shaped average fund profit rate and the situation in money supply and demand, it is necessary to rationally determine the level of interest rates and flexibly adjust the rates according to the monetary and credit policies of the state. We must develop a more rationalized interest rate structure by straightening out the relations between interest rates on various deposits, loans, and securities and must properly adjust the rate difference between deposits and loans according to the principle that interest rates shall reflect terms, costs and risks. It is necessary to enhance banking supervision by strictly forbidding increases in interest rates in violation of the relevant regulations, and, in terms of interest rates management, we must explore the way to make a gradual transition from direct to indirect control by the central bank so as to suit the development of the socialist market economic structure and in the end establish a market system of interest rates based on interest rates determined by the central bank.

Hunan Leaders Discuss Reducing Deficits

HK3101034295 Changsha Hunan People's Radio Network in Mandarin 2300 GMT 21 Jan 95

[FBIS Translated Text] Yesterday afternoon [21 January], the provincial party committee and government held a province-wide telephone and television conference on making up deficits and increasing surpluses. Provincial party and government leaders including Wang Maolin, Yang Zhengwu, Xing Guangrong, and Zhou Bohua attended and addressed the conference. Vice Governor Zhou Bohua presided over the conference. Deputy Secretary and Acting Governor Yang Zhengwu reported on Hunan's work to make up deficits and increase surpluses last year.

Last year, people up and down the province waged a hard battle to make up deficits and increase surpluses. Loss-incurring industrial enterprises throughout Hunan reduced from 67 percent in the first quarter to 34 percent at the end of last year, and the profits of state commerce, as well as supply and marketing cooperatives amounted to 36.39 million yuan. Of the 98 cities, prefectures, and counties in Hunan, 18 did not incur losses in their operation of budgetary enterprises.

After reporting on last year's results in making up deficits, Yang Zhengwu set the main targets for this year's work: The number of loss-incurring state-owned industrial enterprises must be reduced by 5 percent as compared with last year, with a 10 percent decrease in the amount of their losses, and the number of loss-incurring state-owned commercial enterprises must be reduced by 20 percent as compared with last year, with a 15 percent decrease in the amount of their losses.

Secretary Wang Maolin made an important speech at the conference, saying: Enterprises incurring losses are not merely an economic, but also a political issue. All localities and departments must enhance their understanding, work hard to make up deficits and increase surpluses, and take this as an important task for next year. Leaders and departments at all levels must guide and supervise enterprises in looking inward, deepening their reform, strengthening their management, and making up deficit.

In conclusion, Comrade Wang Maolin stressed these three points: The first is organizing Hunan's industrial production and making a good beginning. The second is strictly controlling the total level of price increases, and in particular, maintaining stable commodity prices during the Spring Festival. The third is paying attention to tax and revenue collections, and gaining the initiative from the beginning.

Qinghai Performs Well in 1994 Tax Collection

HK3101063295 Xining Qinghai People's Radio Network in Mandarin 2300 GMT 22 Jan 95

[FBIS Translated Excerpt] Last year, under the situation of facing arduous tasks, taxation organs at all levels in Qinghai vigorously organized the work of tax collection by seizing opportunities and being bold in exploration, thus completely fulfilling the tax collection task and various types of reform work, and making important contributions to the sustained and steady development of Qinghai's national economy and undertakings.

The new taxation system, which has been implemented since 1 January 1994, is one of the important reform measures for helping China shift from a planned economy to a socialist market economy. With the arduous efforts made by taxation cadres throughout the province and with a year of exploration, the new taxation system has been implemented smoothly throughout Qinghai, and the operation is basically stable. [passage omitted]

On the basis of the vigorous development of Qinghai's economic undertakings, and with the joint efforts made by taxation organs and cadres at all levels in the province, a total of over 1.409 billion yuan of taxes were collected, up 16.96 percent over the previous year. Of this amount, more than 1.39 billion yuan of industrial and commercial taxes were collected, up 25.53 percent and registering an increase of over 280 million yuan, thus overfulfilling the plan for the whole year. [passage omitted]

Official Says Nearly US\$6 Billion Traded in Shanghai

OW2901134595 Beijing XINHUA in English 1335 GMT 29 Jan 95

[FBIS Transcribed Text] Shanghai, January 29 (XINHUA)—Nearly six billion U.S. dollars changed hands in January via the computerized trading network of the Shanghai-based China Foreign Currency Trade System, according to an official of the system.

Specifically, 5.49 billion U.S. dollars and 3.43 billion Hong Kong dollars were traded via the network during the first month of this year, the official said.

On January 27, the last trading day in January, the U.S. dollar fell to 8.4384 against the Chinese currency of yuan, down 0.007 percent from 8.4447 on January 3, the first trading day in the month.

As a result of the appreciation of the H.K. dollar worldwide, the currency against yuan rose to 1.0951 on January 27, up from 1.0912 on January 3.

The amount of hard currency traded via the computerized trading network of the Shanghai-based system totalled 40.77 billion U.S. dollars since the network went into operation on April 4, 1994.

The system currently has 303 Chinese and foreign financial institutions as its members and links 26 major cities throughout China via its trading network.

***Expert Views Requirements of Financial System**

95CE0165A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 11, 20 Nov 94 pp 22-28

[Article by Dai Genyou (2071 2704 2589) of the People's Bank of China: "On Establishing a Financial System Compatible With China's Situation"]

[FBIS Translated Text] I. Characteristics of China's Financial Structure

To study China's financial system, one must start out from China's own situation. China's financial system must be compatible with the characteristics of its financial situation, and those characteristics are:

1. Enterprises tend to overborrow. Most of China's enterprises have little money of their own. Their debt ratio is in excess of 70 percent, which is unprecedented

in world economic history. Japanese enterprise debt ratio is the highest among the Western [as published] developed nations, but even that debt ratio is only around 60 percent at its peak.

2. Banks tend to overlend money. This means the state banks rely heavily on the central bank fund supplies to lend out excess sums of money. The bulk of China's bank loan funds comes from deposits; the remaining portion coming from the banks' own funds. When bank loans exceed total deposits plus the banks' own money, they must borrow from the central bank. Currently, the specialized state banks have borrowed a net of more than 300 billion yuan from the central bank.

3. Indirect financing plays the dominant role. The stock markets have been very bullish on several occasions since 1984, but overall, direct capital-raising is still limited in scope. At the end of 1993, the capital-raising scope (base amount) of major financial institutions was close to 4 trillion yuan, while stocks and various types of bonds totaled less than 300 billion yuan, and even if we include other forms of financing by enterprises, the scope of direct capital-raising is but one-tenth that of indirect fund-gathering.

The above three characteristics of China's financial structure are rooted in China's unique socialist economic structure. Their bases are the inability of enterprises to accumulate funds (there are objective as well as subjective reasons for this,) the huge demand for funds due to investment-oriented economic growth, the relatively underdeveloped financial markets and their backward management (China's stock markets tend to be too speculative,) the people's savings habit, and so on.

II. The Central Link in Restructuring China's Financial System Lies In Establishing a Commercial Bank System Compatible With China's Own Situation

Commercial banks are important indirect capital-gathering organs. In China, financial institutions that are essentially commercial banks account for 95 percent of all indirectly raised capital, and 74 percent of that is attributable to state banks. Activities of financing China's economic functions are conducted mainly by these institutions. Based on this fact, and in order to raise China's financial efficiency, strengthen its financial controllability, and increase its financial stability, I believe that the emphasis of China's financial reform should be on strengthening the commercial bank system.

But for various reasons, China's financial reform has continued to stall on this central issue of establishing a commercial bank system. The existing state bank system cannot meet the financial needs of economic entities at all levels. This is prominently displayed in the existing banking system's inability to deal promptly with the fund supply-demand disequilibrium caused by uneven economic development in different regions, and as a result, there are financial conflicts between the state's mainstay enterprises and local economic development.

A typical example is that whenever macroeconomic regulation and control are tightened, fund supplies will be especially scarce in areas with a high concentration of large and medium-sized enterprises, often forcing the bank headquarters to implement direct funding. If we look at state bank local branches, although they are responsible for lending money to large, central-level enterprises, and to the many small and medium-sized local enterprises, because of local administrative intervention, and out of consideration for local economic development, whenever funds are scarce, sacrificing a large enterprise to protect a bunch of small and medium-sized local enterprises is often their first choice of action. As a result, the central bank is forced to ease the money supply in order to meet large enterprise fund demands. This situation is exactly opposite that of Japan's during their period of accelerated economic growth when local bank funds flew toward city banks to support the development of large industries. And the ability of large Japanese enterprise conglomerates to compete internationally was built up exactly with the support of the city banks.

To change this improper fund flow, we must adopt some measures within the banking system to meet the fund demands of different regions at different levels and use that as means to cut off the passageway through which small and medium-sized enterprises crowd out large enterprises fund supplies and "force" the central bank to issue more currency. The way to achieve this is to set up city banks which serve primarily the large and medium-sized enterprises and local banks which primarily serve the small and medium-sized local enterprises. The central link in post-war Japan's reconstruction of the financial system was setting up a commercial banking system consisting of a few large banks and one local bank per county. On this premise, and only as a supplement to the commercial bank system, they also set up a long-term development bank and import-export bank and other government-owned financial institutions, on the one hand, and, on the other hand, they also set up mutual banks, credit treasuries, and other small financial institutions whose main purpose was to solve employment-related problems. These institutions later played a very important role in Japan's economic development. According to YITENG ZHENGZE [0122 5671 2973 0463], during the entire period of accelerated growth, Japan's huge investments in civilian projects were financed primarily by funds gathered at home; foreign funds only equalled 3.6 percent of all funds raised domestically. Learning from Japan's experience, we have opened development, agricultural development, and import-export banks, and if we add the various financial institutions established over the last few years, we have indeed strengthened the ranks of financial institutions which are supplements to the commercial bank system. But as far as the commercial bank system itself is concerned, it is the central link in China's financial system, but we have yet to make improvements. Today, the basic setup of China's banking system is one in which

the specialized state banks continue to have a monopoly, and meanwhile the several newly established commercial banks are beginning to resemble the specialized state banks (they all want to become national, multipurpose banks.) The problem with this setup is that not only is it unable to meet the financial demands of enterprises in different regions and at different levels but it is also not conducive to macroeconomic regulation and control, and an even more serious problem is that it does not help specialized banks achieve scale economy and does not help create competitive mechanisms in the financial markets. All economic management processes are in fact processes of handling economic information. China's several large specialized banks have so many branches and sub-branches, and they are so scattered, that it is quite unprecedented in any other country in the world. It is almost impossible to guarantee efficient management given our current means of relaying information. Since last year, because provincial-level People's Banks no longer have the power to regulate funds or wide funding scope, the specialized banks have taken back all power to regulate funds and the scale of funding, but because their branches and sub-branches are beyond their reach, in the end, it was necessary to add two intermediate reserve requirements to the legally set reserve and emergency funds stipulated by the People's Bank. As a result, its above-quota reserve soared and fund circulation clearly slowed. This situation has left the central bank's macroeconomic regulation and control with a serious potential problem.

A commercial bank system compatible with China's situation should be made up of a few large national banks and many medium-sized and small regional banks. If China's enterprises are to become modernized and be admitted to the world market as quality enterprises, they must have the support of large banks. China has a huge potential working population; its economic development is uneven, and without some medium-sized and small local banks that suit local characteristics and operate with flexibility, employment for the labor force, local economic development, and optimized resource allocation will run into great difficulty. The importance of China's financial reform establishing a commercial bank system compatible with China's situation cannot be overstated.

III. Reform of the Specialized State Banks

Setting up a commercial bank system compatible with China's situation requires the restructuring of our current specialized state bank system. The creation of a few large national banks and many medium-sized and small regional banks cannot be achieved by opening new banks outside of the original system; instead, we must overhaul existing state banking institutions. Otherwise, we will run into the same situation as in the industrial sector, and the state banks will follow in the footsteps of the large and medium-sized state-owned enterprises by leaving behind many prickly problems.

There are many suggestions on how to reform specialized state banks. In my opinion, the most worthwhile idea is to model them after modern corporations and change the existing specialized banks which form a single independent legal entity nationwide, establish many branch organs according to administrative districts, and adopt the headquarters-versus-branches model; instead we set up a system consisting of a few national and many regional commercial banks. Specifically, the national commercial banks should hold shares or have controlling interest in the regional commercial banks, but the latter should not serve as branches or subbranches of the national banks. Both the national and regional commercial banks should enjoy independent legal person status. They should continue to set up headquarters and branches and own their own branches and subbranches, but their scales should be much smaller than that of the current specialized banks. If the existing specialized bank system is overhauled as described above, we can expect the following results: 1. Enterprises in all regions and at all levels (large and medium-sized state-owned enterprises and the many local medium-sized and small enterprises) will have proper financial services, so that their financial needs are effectively guaranteed. 2. After reorganizing the specialized banks by patterning them after corporations, regardless of whether they are national or regional commercial banks, all will become independent legal enterprises with autonomous management rights and take responsibility for their own profits and losses. The inherent nature of independent enterprises as legal persons will preclude any improper intervention from governments at all levels. Although the national commercial banks own shares in or have controlling interest in the regional banks and local financial administrations may also own shares, their share percentages should be controlled by law. Local government wishes can only be realized through the number of shares they own as a percentage of all outstanding shares and through the corresponding amount of voting rights they have in the board of directors; they cannot execute arbitrary commands. This is a radical change that affects the very foundation of the commercial bank system. Only by doing this can we say that the specialized state banks have taken the key step toward becoming commercial banks. 3. It will help the commercial banks increase their economy of scale. Constrained by our existing information relaying technology and system, our specialized banks are plagued by problems such as a poor fund transfer system, high management costs, and so on. These problems can only be solved by readjusting bank sizes. 4. It will help end the specialized bank monopoly and promote orderly competition among commercial banks and raise the overall efficiency of financial services. On this basis, we can gradually perfect indirect regulation and control measures. 5. It integrates centralization and decentralization and not only facilitates the macroeconomic regulation and control of central authorities, but also mobilizes local enthusiasm.

Restructuring the existing specialized state banks system according to the above idea will mean a major overhaul of the existing financial system. People may be most concerned about the following two issues:

1. Will opening many regional commercial banks obstruct macroeconomic regulation and control?

This is the main conceptual obstacle that has slowed reform of the specialized state bank system and the main reason suggestions for developing local banks have been rejected for many years. In our opinion, a commercial bank system made up of a few national commercial banks and many regional commercial banks in which the national banks have controlling interest not only will not obstruct macroeconomic financial regulation and control but will actually facilitate them.

First, looking back at the historical process over the past decade or so, loss of macroeconomic financial control was due to three things: One, the overheated economy creating excess fund demand; two, improper asset management on the part of the central bank itself; three, specialized banks overlending (including very short-term loans), which for years has been the usual practice of their grass-roots organs, leaving the central bank to deal with the shortfalls in funding agricultural and sideline product procurements and meeting large and medium-sized state enterprise demands, thus "forcing" it to ease the money supply. The above three causes are interrelated, and among them, the overlending of specialized banks was the crucial link. Setting up the China Agricultural Development Bank helped solve the agricultural and sideline product procurement fund problem. As for specialized banks' creating a fund shortfall for large and medium-sized enterprises and forcing the central bank to ease the money supply, the problem can only be solved by setting up commercial banks that only serve large and medium-sized enterprises needs; otherwise, it will difficult to avoid the situation where small and medium-sized local enterprises crowd out the large and medium-sized state-owned enterprises in competing for funds, which ultimately will lead to financial chaos at the macroeconomic level.

Second, the loss of financial control at the macroeconomic level does not necessarily have anything to do with the number of banks we have. The belief that fewer banks will better facilitate macroeconomic control is the thinking of those who believe in administrative measures. From the economic standpoint, there is no such restriction. The United States tends to practice a single bank system. Besides the more than 5,000 national banks registered with the federal government, there are more than 13,000 state banks registered with state governments, but the United States has not experienced financial chaos because of the large number of banks. There are but a handful of commercial banks in Britain; they are highly monopolistic, but sometimes their financial regulation and control are not very successful. If we analyze the causes of loss of macroeconomic financial

regulation and control from the financial point of view, the key really lies in whether there is a strong and effective central bank. Judging by China's situation, so long as the central bank strictly enforces its reserve system, tightly controls the scale of relending, and tightly controls the overall loan scale of various commercial-type financial institutions and their short-term lending and borrowing channels, we probably will not lose financial control. Looking back at previous rounds of serious financial chaos over the last decade or so, if we set aside the issue of the economic environment and look at the financial sector itself, they were due mainly to mistakes in the above areas, and when we tightened macroeconomic regulation and control, we also put the emphasis on the above areas. Third, implementing macroeconomic regulation and control through administrative means no doubt is speedy and effective and produces results in a short time, but it tends to be sweeping and indiscriminate, like "cutting everything with the same knife," causing severe market turbulence. If the specialized banks are overhauled as suggested above, the central bank will be regulating and controlling banks that are many times more scattered but have much stronger restraining mechanisms than those it faces today. The role of administrative measures will greatly diminish while the role of economic means will greatly increase, and macroeconomic regulation and control will be much more flexible, and as a result, we will find less indiscriminate and sweeping measures and better macroeconomic regulation and control.

2. Will the regional commercial banks be in conflict with the urban and rural credit cooperative banks?

Currently there is proposal to keep the existing specialized state bank system unchanged while setting up urban and rural credit cooperative banks on top of the existing urban and rural credit cooperatives. Conceptually, these urban and rural cooperative banks are local commercial banks, to be included in the national commercial bank system. This idea was first brought up for the purpose of opening up some settlement channels for the credit cooperatives and in order to strengthen management of the scattered credit cooperatives. Giving them commercial bank functions with local flavor was an afterthought.

If this proposal is indeed acted upon, it will produce at least three problems: One, if we indeed believe that by setting up credit cooperative banks on top of the urban and rural credit cooperatives, there will be no need to overhaul the specialized banks, then we will never be able to remedy all of the defects of the existing specialized bank system we talked about earlier. To keep the existing specialized bank system unchanged and to open up a separate sector (or enliven it) will lead the specialized bank system down a dead end street, following in the footsteps of the state-owned enterprises. If we let this develop, the subsequent problems and the shock brought to the whole national economy will be several times worse than those brought by the state-owned enterprises today. Two, according to international practices, the

"cooperative" nature of the credit cooperative banks only means the "members" are nonprofit-oriented, mutually beneficial, and democratic organizations; they have nothing to do with being local commercial banks. Third, even if we take a step backwards and do not set up urban or rural credit cooperative banks according to the cooperative system, the proposed credit cooperative banks still cannot function as local banks. Credit cooperative banks are set up on top of the credit cooperatives. If both are independent legal persons, then the credit cooperative banks' volume of business will be very limited. In particular, when we consider that, for historical reasons, most small and medium-sized local enterprises have accounts in the specialized banks, it will be very difficult for the credit cooperative banks to change the fact that the specialized banks will monopolize most local financial businesses for sometime to come. Thus, as far as the intended system is concerned, there is really no conflict between transforming specialized banks into local commercial banks and setting up credit cooperative banks.

To perfect the above-mentioned commercial bank system, we must complement it with other necessary reforms. We must: 1) Set up policy-oriented banks and separate out the policy-oriented tasks; 2) deepen enterprise reform and set up a social security system; and 3) resolve the huge bank bad debt problem. This last problem is tied to defects of the enterprise system itself. According to international practice, if bank loans are not repaid when due, the assets are considered bad debts after a certain period of time. Commercial bank bad debts refer to the amount of loans the borrowers cannot repay when due. China's state bank loans have nominal due dates, but in fact most loans are indefinite, therefore there is no accurate way of telling how big the total amount of bad debts is. Bad bank debts are a reflection of enterprise losses. If the huge bad debt problem is not solved, both enterprises and banks have a heavy burden to shoulder. Not only enterprises, but banks, too, can have serious management problems, which make it difficult for reform to begin in any meaningful way. There are many suggestions about how to solve the bad debt problem. They include using enterprise bankruptcy to offset the bad debt reserve; restructuring debts among enterprises, financial administrations, and banks; and letting banks own shares in enterprises directly. In practice, all these approaches have certain limitations; they can only solve part of the problem. For example, the reserve for offsetting bad debts is very small compared to huge enterprise (and bank) bad debts—it is like trying to put out a huge fire with a cup of water. As for restructuring the loans, no matter how resolute we are, it will not work. For example, we let the Financial Ministry take on another 30 billion yuan of debts a year, but in 1994 alone, newly added enterprise bank loans will exceed 500 billion yuan. And as for letting banks hold shares, banks are supposed to look after the interest of depositors; they should not invest their deposits, which means this method no doubt will be limited by the banks

own funds. Thus, all these limitations means no medicine can really cure all the problems. At the end, we may need a comprehensive treatment.

IV. Setting Up a Non-Bank Financial Institution System Compatible with China's Real Situation

Commercial banks are the main entities, but nonbank financial institutions also play an indispensable role in the financial system. A nonbank financial institution system compatible with China's situation should be an important component in China's financial system. It should share in the division of labor with commercial banks, and they should cooperate with and supplement each other.

Nonbank financial institutions include trust, insurance, securities, leasing, and finance companies. They also include credit cooperatives, consumer credit bodies, and other institutions. The difference between nonbank financial institutions and commercial banks is the ability to generate deposits and whether deposits constitute the main source of funds. Looking at the situations in other countries, the division of labor between commercial banks and nonbank institutions is well-defined in some but not so clear in other countries, and there are also differences depending on the different stages of economic and financial development. Looking at our own situation, at this stage, it is better to have a system of clear division of labor because it is more compatible with our current standard of financial supervision and our lack of control over financial institution behavior. Today, there is little disagreement in acknowledging the need to implement separate management over the financial industry. The question lies in actual management. For example, how can we sever, in fact and not just in theory, the close ties between banks (including credit cooperatives) and securities institutions and prevent the securities markets from being overly speculative (today, some securities institutions own their own credit cooperatives)? How can we strictly regulate the insurance companies and lower their costs and make sure they pay compensation?

To strengthen the nonbank financial institution system, we must pay close attention to setting up a deposit insurance system. The deposit insurance system is an important means to guarantee a stable financial system. At the same time, only by having an insurance system can we loosen our grip and let the financial intermediaries compete in offering their services and in turn broaden financial resource allocating channels in the market to improve financial efficiency. Deposit insurance is the financial system's safety net. Without this safety net, it will be difficult to ensure financial stability.

Nonbank financial institutions play a prominent role in financial reform. Currently, financial resources are overly concentrated in the hands of the banks, but meanwhile banks are used to the system of eating out of the big pot. Based on the existing enterprise system, if

overdue loans are not repaid, the central bank must inject more basic money to guarantee cash flow. The result is the building-up of inflationary pressure. In the wake of the in-depth restructuring of the economic system, the flow of society's funds has changed dramatically. To adapt to this change, the financial institution system must be restructured. Developing and perfecting a nonbank financial institution system is an important part of the restructuring of the financial system.

V. On Central Bank Reform

1. Exploring ideas for restructuring the central bank system

Discussing the reform of the central bank last does not mean that it is not important; rather, it should be so based on the logic of the development of the financial system. Historically, the central bank was created as an antithesis to the commercial banks. If not for the fact that commercial banks often tended to "do too much" rather than "do too little" and their business activities tended to show instability and so on, there would be no central bank today. Historically, central bank came into being about 150 years after the first commercial banks. By nature, the central bank appears in the financial arena as administrator (or servant) of commercial banks (including other nonbank financial institutions.)

It is vital to our effort to sort out ideas on restructuring the central bank system to learn the objective facts of the development of the central bank. Since the central bank was created as the antithesis of commercial banks, the main conflict in the whole scheme of the restructuring of the financial system lies in the commercial banks, and therefore logically central bank reform should be subordinated to the reform of the commercial bank system. A certain kind of commercial bank system calls for a certain kind of central bank system. If we go ahead with the reform of the central bank before we have perfected the commercial bank system, we may make some progress in strengthening macroeconomic financial administrative measures (controlability,) but as far as giving play to the financial system's own efficiency and stability is concerned, it will be of little use. The financial system's effectiveness in allocating financial resources is attained primarily through the commercial bank system. Financial system stability is also determined by the soundness of the commercial bank system. We can go to extremes, that is, if we completely ignore the financial system's effectiveness in allocating financial resources and its inherent stability and focus on nothing but financial control, we can say that every financial system has some controlability. In a centralized planned system, China's macroeconomic financial control proved effective on several occasions; Western countries that operate under a market economy also have effective macroeconomic financial control; when China's economic system was changing tracks, on several occasions, our attempts to tighten the economy also proved that if we were determined, our financial macroeconomic control could be very effective too.

When designing China's central bank system, we should also pay close attention to the limitations in its manipulation of monetary policy. Faced with the reality of a financial structure dominated by indirect financing and bank overlending, China's monetary policy tools will be limited to making loan volume plans, setting central bank loan quotas, and regulating interest rates. It will be a long time before open market operations can become the main monetary policy tool. The kinds of monetary policy tools constrain the way the central bank manipulates the monetary policy, and that in turn constrains the format of the central bank system. When we talk about starting out from China's reality to study a Chinese central bank system, ultimately we mean starting out from its commercial bank system and monetary policy tools.

2. Ideas about a Chinese central bank system

To help the central bank shake off local government interference more effectively so that it can implement the monetary policy independently under the guidance of the central government (the State Council,) the Third Plenary Session of the 14th CPC Central Committee proposed, through the ratification of the "CPC Resolutions On Issues Pertaining To the Establishment of Socialist Market Economic System," to "actively create conditions to set up central bank branches that cover all administrative districts." From the standpoint of the future development of China's central bank system, no doubt is a good idea, but to turn this idea into reality, we need to have the necessary conditions, and it must adopt a necessary transitional format.

China's existing central bank system was created gradually over the last few years. At the beginning (1984), it was not even considered that we should learn from the U.S. experience to set up central bank branches that span different administrative districts. But as a result of implementation, not only have the provinces, autonomous regions, and municipalities set up central bank branches, but organs were set up at every level all the way down to the counties. This discrepancy between subjective thinking and practical outcome is partly due to a certain amount of recklessness in practice (such as setting up branch organs all the way down to the county-level) but mostly to the fact that the people's initial subjective expectations were unrealistic in view of China's economic and political systems. As an important department in China's macroeconomic management, the central bank is an important part of our economic and political systems; it cannot exist outside of the realities of our economic and political systems.

The fact is, if we look at the U.S. situation, even its central bank system cannot escape this law; it is also the product of the economic and political systems. The United States was the last among the economic powers to set up a central bank; its central bank system is also the least centralized. Most countries only had one central bank at the beginning; administrative power clearly was

concentrated in the hands of the central authorities. In the United States, however, there were 12 federal reserve banks set up in corporate form right from the beginning; they were set up in 12 federal reserve districts, and administrative power was shared between the 12 federal reserve banks and the Federal Reserve Board in Washington D.C. The reason the U.S. central bank system was so set up then was not to escape local administrative intervention, as some people have imagined; to the contrary, it was the product of the U.S. federal system; it was the product of the localities' efforts to escape central control. "The central bank system set up by the Congress reflected the United States' historical concern about letting the central government monopolize the power to issue currency. This point can be traced back to experiments conducted on the central bank's business operations in the early days. It also reflected a wish to decentralize such power. Therefore they set up a system which reflected regional diversity but also allowed individual participation. Thus, today's federal reserve system is a regionally decentralized organ; the interests of the government and the interest of individuals are represented in ownership rights and in its control" (William McDonald, chairman of New York's Federal Reserve Bank, in a speech delivered on 22 April 1994 at the University of Chicago Law School.) Of course, the U.S. federal reserve system has been continuously modified and has become more centralized, but these changes were made in the wake of the country's economic and financial development. From the historical viewpoint, the more-or-less decentralized U.S. central bank system once played an important role in the economic development of the very unevenly developed states. And that was a fact.

China's central bank system definitely cannot exist independently outside of the country's economic and political systems. Compared to the United States, China's economic and political systems are more uniform, and accordingly China's central bank system should emphasize centralization even more. But because of clearly uneven economic development among the different regions in China, because for more than 40 years, the government-run economic system has created an economic pattern which centers around the localities where the administrative organs are situated, and because the economic system is dominated by the public-ownership system and the political system is a one of people's congresses at different levels, all these have mandated that governments at all levels are very much responsible for promoting local economic development. Thus, objectively, just like the central government, the local governments have to utilize financial levers to regulate the economy. How to make monetary policy uniform nationwide but still treat different regions differently is an important issue we must address when designing China's central bank system. If we neglect this issue, the new system will not fully mobilize the enthusiasm of the

central government and the localities, and, in turn, it will not promote the sustained, speedy, and healthy development of the national economy.

Based on the above-described objective facts, it is clear that the central bank's branches and subbranches in various provinces cannot be abolished anytime soon, and, correspondingly, it will be equally difficult to eliminate prefectural- and municipal-level organs. As for the county-level organs, it is a different matter. Whether the provincial and municipal (prefectural) level organs can be abolished is determined by the following three conditions: 1) If the uneven economic development among different regions is resolved, if unified, nationwide capital and money markets are established, and if the central bank's financial regulation and control can be achieved primarily through indirect means in the financial markets. 2) If commercial bank organs are no longer set up primarily according to administrative principles but according to economic regions. 3) If local governments no longer assume economic functions and no longer interfere in economic operations, and the central bank's administration of local financial order no longer requires the help of local governments.

When we say that within the foreseeable future the central bank must retain its branches and subbranches at the provincial and the municipal (prefectural) levels, we have not overlooked the issue of the system's own existence. The greatest defect of the existing central bank branches which are set up according to administrative districts is that they tend to localize the functions of those organs. That is, the branches tend to take stands that are different from the central bank's. To resolve this issue, we must readjust the functions of the provincial and municipal (prefectural) branches. The way to do this is to set up several large district branches (administrative offices) that span several administrative districts. Under the present circumstances, the large district branches can employ few staff; they can serve as the main office's special agents. Their main duty will be to monitor district economic and financial situations and represent the main office to regulate funds and the loan scales of various financial institutions within their jurisdictions. We support this idea (we were not the first to come up with it) mainly because when we consider the fact that China's capital and money markets are still underdeveloped and that the central bank can only rely on credit plans and central bank loans and other direct financial tools to exercise macroeconomic financial control, setting up large district branches will help the central bank deal with different situations in different regions and solve recurring and complicated problems from close proximity and in a timely fashion. Clearly, this approach will help greatly reduce the phenomena of "cutting with the same knife"—using the same measures to deal with everything—in the implementation of our current monetary policy and will help resolve the conflict between

central and local interests as well as mobilize central and local enthusiasm. The large district branches hiring few staff at the beginning will facilitate management. The backbone staff can be sent directly from the main office and can be transferred nationwide at anytime. This will prevent the large district administrative cadres from taking local stands, and at the same time it will also help the branches and subbranches accumulate trans-district macroeconomic financial management experiences, so that eventually we can make the transition to the target mold of setting up central bank branches and sub-branches that span different administrative districts.

XINHUA Correction to Money Supply 'Too High' in 1994

OW2801021695

Beijing XINHUA in English supplies the following correction to the item headlined "Money Supply in 1994 Stays 'Too High'," published in the 27 January China DAILY REPORT, page 51:

Column two, fourth paragraph, only sentence make read: ...money amounted to 4693.3 billion yuan and 2055.6 billion yuan, according....(correcting figures).

Southwest Region

Deputy Secretary Speaks at Tibet Economic Conference

OW3101060795 Lhasa XIZANG RIBAO in Chinese
12 Jan 95 pp 1, 3

[Speech by CPC 4th Tibet Autonomous Regional Committee Deputy Secretary Basang at the Regional Economic Work Conference on 11 January 1995: "Achieve Unity in Thinking, Take Steps in Unison, and Ensure a Solid Job of This Year's Economic Work"]

[FBIS Translated Text] Comrades:

The purpose of the regional economic work conference, called by the regional party committee and the regional people's government, is primarily to transmit and study the guidelines of the central economic work conference, to analyze the current situation in Tibet, to achieve unity in thinking and understanding, to review the work in development and reform in the past year, to study and plan next year's economic work, and to seize the opportunity to continue to promote reform and opening up, so as to achieve a sustained, rapid, healthy development of the regional economy.

Hereinafter, I shall discuss three questions.

I. The Economic Situation in 1994 and the Guiding Ideology for This Year's Economic Work

In 1994, party organizations and governments at all levels in Tibet, following the guidance of Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the party's basic line, earnestly implemented the guidelines of the 14th CPC National Congress and the Third and Fourth Plenary Sessions of the 14th CPC Central Committees. In accordance with the general tasks set by the central authorities for the whole party and the whole country, "seizing the opportunity, deepening reform, opening up wider, promoting development, and maintaining stability," we paid close attention to handling the relationship between reform, development, and stability; and made new headway in reform and opening up, economic construction, and all other fields of endeavor. Especially following the convening of the third forum on work in Tibet, convened by the party Central Committee and the State Council last July, the people throughout the region, with a new mental outlook, new way of thinking, and new posture of action, seized the opportunity to accelerate development and safeguard stability, and strove to create a new situation in work in Tibet, thereby bringing about an excellent situation characterized by political stability, economic growth, and good public order. We successively introduced several major reform programs aimed at establishing a socialist market economic structure. In the process of reform, as we had worked out well-conceived plans, carried them out coordinately in related areas, ensured smooth transition, and promptly studied and

solved contradictions, all programs were carried out smoothly without causing major economic upheaval and social repercussions, thus laying the basic framework for the socialist market economic structure. The fundamental position of agriculture and animal husbandry as the foundation of the regional economy was further strengthened; production structure was improved; diversified management advanced at full steam; village and township enterprises developed with a strong momentum; fresh progress was made in the comprehensive development of agriculture and animal husbandry, and the construction of disaster-proof livestock production bases; and good animal husbandry and agricultural harvests were reaped despite a series of natural disasters. In industry, we saw output value, sales revenues, and profit and tax delivery increase side by side. In energy, transportation, and posts and telecommunications, we scored notable achievements in infrastructure construction, which built up the strength for further development. Operations at the Daqing Engineering Bureau have proceeded smoothly since its inauguration. The development of domestic trade was quickened, and markets were brisk in both urban and rural areas. Expansion in foreign trade and economic relations, and in domestic lateral economic ties with other regions accelerated Tibet's opening up, especially to other regions. Last year, active exchanges with foreign countries made Tibet better known abroad, and dealt an effective blow at distortion and slander by international hostile forces and the Dalai clique. Financial revenues grew, and banking institutions were in a good state. Education, science and technology, culture, public health, sports, and other social undertakings developed healthily. Family planning work began to receive attention and be accepted by the masses, and achieved initial success in farming and pastoral areas. We intensified efforts to build socialist spiritual civilization and promote the construction of democracy and the legal system; paid greater attention to improving party work style and promoting clean government; and scored periodic achievements at varying degrees in fighting corruption in various fields. While pushing reform and accelerating the socialist modernization drive, we adhered to the principle of giving equal emphasis on two fronts and doing well in both, and resolutely cracked down on splittism and all criminal and lawbreaking activities to ensure social stability.

In 1994, the regional economy was imbued with vigor and showed bright prospects. The facts have sufficed to prove that the basic principles and policies formulated by the party and the state for accelerating Tibet's development are entirely correct; that socialism is full of vitality in Tibet; and that we are capable of quickening the pace of Tibet's development under the state's support and with the assistance of the people throughout the country.

While fully affirming our achievements, we must also soberly realize that there are still many difficulties and problems on the path ahead. Some deeper contradictions

in economic operations have not been fundamentally resolved. Commodity prices have risen by fairly big margins and have gone beyond the ability of some enterprises, consumers, peasants, and herdsmen. Our overall economic strength is weak, and our macroeconomic regulation and control are not very effective. Economic growth through extensive management still hampers the optimization of our economic structure and the increase of our economic efficiency. The weak foundation of our agriculture and animal husbandry has not been fundamentally corrected. The economic structure of our farms and pastoral areas remain unitary. Incomes of peasants and herdsmen are slow to increase. The number of money-losing state-owned enterprises and the amount of losses have increased by fairly big margins, and some enterprises have found themselves in a tight corner. Many new developments and problems have been encountered during the transition from the old structure to the new. The task of combating corruption is still formidable. The struggle against separatism is sharp and complex and, to a certain extent, affects our efforts to pursue economic construction with heart and soul. We must on no account underestimate these problems or take them lightly. We must always remain sober-minded and adopt realistic and effective measures to earnestly resolve them so as to continue advancing socialist undertakings in our region.

The year 1995 is the last in the Eighth Five-Year Plan and a crucial year for comprehensively implementing the guidelines of the Third Central Forum on Work in Tibet. Therefore, it is extremely important to work hard and carry out work in all fields. After all factors are considered, the guiding ideology for this year's economic work is: Uphold Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the party's basic line; use the Third Central Forum on Work in Tibet to guide work in all fields; uphold the guidelines of "one center, two major tasks, and three guarantees"; firmly follow the general direction of "seizing the opportunity, deepening reform, opening up wider, promoting development, and maintaining stability" in handling the relationship between reform, development, and stability; speed up economic development, promote comprehensive social progress, and lay a strong foundation for comprehensively achieving the goal of economic development set at the Third Central Forum on Work in Tibet.

Based on this guiding ideology, this year's major economic tasks are: Continue to emancipate our minds and change our thinking; open even wider to the outside world and promote development through opening; strengthen and improve macroeconomic regulation and control to maintain the momentum of accelerated economic development; stabilize commodity prices and check inflation; focus on deepening the reform of key state-owned enterprises and push forward various supporting reforms; strengthen the role of agriculture and livestock breeding as the foundation of the region's economy, ensure the effective supply of agricultural,

livestock, and sideline products, and bring economic development and prosperity to all farm and pastoral areas; intensify structural adjustment, strengthen management, push technological progress, and raise the overall quality and efficiency of the economy; and step up infrastructural construction to enhance the region's ability to make sustained development.

Later, Comrade Chuantang [Yang Chuantang] will make specific arrangements for this year's reform and development. As a whole, the tasks of this year's reform, development, and stability are quite arduous. We must take advantage of the present opportunity and our favorable conditions to accelerate development. At the same time, we must appropriately arrange the tasks of reform and development and adopt realistic and effective measures to ensure that reform, development, and stability will advance in coordination and promote each other.

II. Several Issues Requiring Our Correct Understanding and Handling in Conducting This Year's Economic Work

In recent years, along with the continuous deepening of economic restructuring and rapid economic development, new developments and problems have emerged in our economic life. We must earnestly analyze and satisfactorily resolve these problems that occur in the course of progress. The regional party committee and people's government believe that to carry out this year's economic work, it is necessary to achieve unity in thinking, coordinate our steps, use the Third Central Forum on Work in Tibet to guide work in all fields, and correctly understand and handle problems in the following eight areas:

1. We should continue to implement the guidelines of the Third Forum on Work in Tibet and ensure sustained, rapid, and healthy development of the economy.

The guidelines of the Third Forum on Work in Tibet held by the central authorities are overall strategic policy decisions made by the party Central Committee and State Council for Tibet in the new historical period and development stage. These policy decisions—which cover ideology, politics, economic development, social progress, and national defense—are guided by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics. We must use the Third Central Forum on Work in Tibet to guide work in all fields, charter the course of development, make work arrangements, and implement various measures. We must uphold the forum's guidelines and implement them without wavering; and we must not abandon them, no matter what happens. Only by doing so, will our work in all fields not deviate from the correct orientation, will there be a reliable foundation for Tibet's long-term stability and rapid development, and will there be a reliable guarantee for Tibet's prosperity.

The Third Forum on Work in Tibet, hosted by the central authorities, clearly defined the guiding principle

on work in Tibet, and proposed the two major tasks of maintaining stability and accelerating development. Development must be accelerated at a certain speed. The situation in our region indicates that we can only stop the gap from widening between our region and other parts of the country if we keep pace with their development, and that if we outpace them, we can narrow the gap and help Tibetan people attain moderate prosperity together with other people in the country by the end of the century. The Third Forum on Work in Tibet determined that the average annual growth rate of the regional economy should reach 10 percent or so before 2000. This objective was proposed following in-depth investigation and study, serious analysis of favorable and restrictive factors, and careful verification by the party Central Committee and the State Council. It is therefore positively reliable and achievable through hard work. Only hard work can give us a 10-percent rate of development, help us lay the foundation for the take-off of the Tibet economy in the next century, bring rapid economic development to Tibet, and thereby further strengthen the cohesive force between all nationalities in the region, thoroughly crush the splittist conspiracy of the Dalai clique, and create the conditions for long-term stability. Accelerating Tibet's development is a political issue that affects the state's overall strategic interests. We should fully understand the strategic significance of accelerating development, undertake the task entrusted to us by history, effectively depend on and utilize the whole nation's support, and use our own hard work to earnestly achieve the magnificent objective of developing Tibet.

When we emphasize the speed of development, we mean increases in terms of quantity and scale, but we are also referring to significant improvement in economic quality and efficiency. It is practical to pay attention to the growth rates of economic returns. It is good to achieve net growth, for it indicates a capacity for sustained growth. Beginning this year, all sectors of the autonomous region should pay great attention to improving quality and efficiency in economic growth, and promote a good economic cycle. Quality and efficiency in economic growth should be used as the main gauge for appraising and assessing the quality of economic work conducted by all departments, localities, and enterprises. Here, the basic demand is that we actively promote, as the method for achieving economic growth, intensive instead of extensive operations; improve the overall quality of our economy and our efficiency in allocating essential factors of production; and pay attention to improving efficiency in structural optimization, operations of appropriate scale, and scientific and technological progress.

For this year's economy work, the entire region should keep in mind the objective of achieving 10 percent growth rate when making arrangements, and all prefectures and cities should implement relevant tasks one by one. Of course, economic development should proceed from realities, and we should not take a blanket approach when planning our production. We should

make higher demands on those with good qualifications, and lower our demands on those with lesser qualifications. Those who have the capability to accelerate their speed but fail to do so are not seeking truth from facts, nor are those who try to accelerate their speed despite their inability to do so. Each district and county should decide on a correct principle for development based on its actual situation, adopt measures that conform with reality, develop strong points to make up for weak ones, and promote coordinated economic development.

2. We should control inflation and stabilize prices.

Stabilizing prices and controlling inflation are the key link in this year's economic work. Since the beginning of last year, due to the great increases in commodity prices in inland regions, where we get most of our commodities, and excessive growth in consumption funds, the average prices of commodities in our region have increased considerably, which is more than what some of our people, enterprises, and state financial resources can withstand, and this has evoked a rather strong reaction from all quarters. If we fail to adopt practical and effective measures, we will mess up economic relations, channel our resources into the wrong places, distort relations between different interests, cause social instability, and affect reform and development. This is an economic as well as political issue. Therefore, we must regard efforts to stabilize market prices as a key link in correctly handling the relations between reform, development, and stability. Whether we can lower the excessively high prices will be an important test of our ability to control the overall economic situation. We should unify our thoughts, and regard controlling excessive price increases as a major objective in macroeconomic regulation and control. All localities and departments should resolutely implement the price reform program, policy, and measures stipulated clearly by the autonomous region. At present, we should control excessive growth in social demands and investment size in a stern manner, work hard to increase the supply of essential products to society, and vigorously strive to maintain basic balance between total supply and demand.

We should attach importance to invigorating commodity circulation. State-owned commercial enterprises should deepen their reform, continue to play the role of the main commodity circulation channel, pay attention to doing a good job in the ordering, allocating and transferring, and wholesale of major materials and commodities which have a bearing on national economy and people's livelihood, and maintain a rational amount of stock for circulation so as to regulate supply and demand and stabilize the market and prices. Great efforts should be made to develop a circulation system comprising various economic sectors and various forms of ownership, including collective, individual, private, and joint operations. We should strive for development only, not proportion [bi li 3024 0173], and we should support whoever can invigorate commodity circulation and make the market prosper. It is necessary to improve

order in the field of circulation and the market, make the pricing behavior conform to the norm, and accelerate the establishment of a new commodity price regulation and control system, and a new commodity price management system. The price policy must be strictly enforced. No organizations are permitted to readjust with authorization any government-set prices for commodities and services. We must firmly implement the 10 measures for stabilizing the market and curbing inflation proposed by Comrade Li Peng during the national television and telephone conference on strengthening commodity price management in September 1994. We should step up macroeconomic regulation and control and build a system of major commodity reserves, a risk regulation mechanism, and an effective market regulation and control system. By doing solid, effective work, we should strive to keep the range of price increases within the state-prescribed limits.

3. We should put agriculture and animal husbandry at the top of economic work.

The question of agriculture, animal husbandry, rural and pastoral areas, peasants and herdsmen has always been the fundamental question of economic development and modernization in this region. Tibet's peasants and herdsmen account for more than 80 percent of its total population. The people in Tibet will be unable to become reasonably prosperous if the peasants and herdsmen are not comparatively well-off. Tibet will be unable to achieve an economic rejuvenation if economic prosperity does not exist in its rural and pastoral areas. There will be no mass foundation for our anti-splittist struggle if the peasants and herdsmen are not living and working in peace and contentment. The efforts made by the party committees and governments at various levels to implement the guidelines of the Third Tibet Work Forum can be examined by looking at the situation of the development of agriculture and animal husbandry. In recent years, the autonomous regional party committee and government have repeatedly emphasized the necessity to attach even more importance to the role of agriculture and animal husbandry as the foundation of the national economy, and all localities and departments have done a great deal of work and made great achievements in this regard. However, the problem has not yet been solved completely. The development of agriculture and animal husbandry has been slow due to their fragile foundation. The improvement of the people's living standards is not fast either, and some people are still living in absolute poverty. To develop agriculture and animal husbandry remains a problem of prime importance which we must solve well.

According to the guidelines of the Third Central Forum on Work in Tibet, to develop agriculture and animal husbandry, efforts should be made to achieve basic self-sufficiency in grain, edible oils and meat. While making great efforts to develop animal husbandry, we should never slacken our efforts in grain production. We should constantly make efforts to strengthen the basis for

further agricultural development, increase the income of peasants and herdsmen, and enable them to lead a fairly comfortable life. We should truly integrate the task of steadily increasing the output of grain, meat, and dairy products with the task of steadily meeting the people's basic needs in food and clothing, and increasing the income of peasants and herdsmen. We should readjust the structure of production, including the structure of crop cultivation and livestock breeding, in accordance with the principle of high yield and high efficiency. While persistently adopting both extensive and intensive means, we should expand reproduction chiefly by intensive means and switch the development of agriculture and animal husbandry onto the track of relying on scientific and technological progress. We should pay attention to introducing into Tibet from the outside any strains of agricultural crops which are suitable to growing on plateau, and we should also cultivate such strains ourselves. We should promote scientific farming and scientific livestock breeding both in depth and in scope. The development of animal husbandry in this region is unstable, and fodder grass is the crucial problem in this regard. We should attach importance to the work of growing grass and other fodder crops, improving the strains, and fattening. We should persistently readjust the mix of livestock and promote the change from traditional livestock breeding to modern livestock breeding. It is necessary to increase investment in agriculture and animal husbandry, step up the building of agricultural infrastructure and farmland water conservancy and capital construction projects, and enhance our ability to resist natural disasters. In government investment in agriculture and animal husbandry, we should maintain a certain rate of increase. At the same time, we should actively guide peasants and herdsmen in increasing their investment of funds and labor in agriculture and animal husbandry. All trades and professions should deem it their duty to support agriculture and promote economic development in the rural and pastoral areas.

At present, circulation work in rural and pastoral areas is not being conducted in a sound manner. The rural economy and animal husbandry in the region is still in a self-sustaining state characterized by small-scale operation, and production is simple and duplicated. The situation limits the formation and development of the market and seriously restricts the development of agricultural and livestock production, and increased personal income. In order to quickly help peasants and herdsmen wipe out poverty and lead a fairly comfortable life, we must first of all achieve a major breakthrough and take-off in the field of circulation. We should establish a socialized service system; effectively provide services before, during, and after production; help the masses enhance their concept of commodity, market, and economic efficiency; and eliminate the idea of being content with making a little money. We should support the development of a number of operators with expertise in circulation work, vigorously develop various kinds of

economic entities engaged mainly in circulation work, strive to enliven circulation work in rural and pastoral areas, and guide peasants and herdsmen to change their production from the natural self-supporting economy to a commodity economy with a goal of increasing their income. Only in this way can the peasants and herdsmen eliminate poverty and lead a fairly comfortable life.

Fighting a good battle in wiping out poverty and accelerating the improvement of the living conditions of people in poor areas are important political issues which are directly related to the party's influence in Tibet, and the consolidation of the socialist system in Tibet. We must strengthen our leadership. Everyone should take part in this work and all departments should be held responsible for this work. We should set a target date for achieving the goal of wiping out poverty. Our actual achievements in assisting poor areas can further promote close ties between the party and the masses, and strengthen the party's rallying power.

To speed up the development of agriculture and animal husbandry, we must have a complete set of practical and feasible ways and methods. In light of actual conditions, all prefectures and counties must study and formulate specific measures suitable for local conditions to promote the development of agriculture and animal husbandry, and implement these measures in an earnest manner.

4. We should strengthen the construction of infrastructure facilities.

To accelerate economic development, we must strengthen the construction of infrastructure facilities. The party and the state have shown great concern for people in Tibet and development in Tibet, and have provided Tibet with a large amount of investment funds for infrastructural construction. In order to celebrate the 30th founding anniversary of the autonomous region, the central authorities have mobilized the whole country to support Tibet and made arrangements for the construction of 62 projects. They will play a great role in improving Tibet's backward infrastructure, promoting the all-round development of various undertakings, and raising people's living standards. We must properly use the money, do a good job in construction projects, and make outstanding achievements in our work to show our appreciation of the profound concern of the party and people. We should effectively strengthen the building of energy sources and transportation and communications networks, and do a good job in the comprehensive development of agricultural and animal husbandry. We should make good preparations for the development of the Yulong Copper Mine, the North Tibet Oilfield, and Yanhu Lake [yan hu 7770 3275], and strive to implement these projects. Governments at various levels and the regional engineering construction headquarters should strengthen contacts and coordination with concerned ministries and commissions of the central authorities and various provinces, municipalities, and regions

which provide assistance to Tibet, and make efforts to solve difficulties and problems in construction work. Construction departments at various levels should coordinate work and services with concerned units and strictly implement a responsibility system. We should pay attention to progress and quality of key projects under construction, including those projects for the celebration of the 30th founding anniversary. Projects which are scheduled to be completed next year must be put into operation according to the schedule. We should strengthen administrative work and the training of managerial personnel. We should strive to complete a number of projects, promote the development of a number of enterprises, and train a contingent of capable people to establish the foundation for accelerating economic development in this region.

5. We should deepen reform with emphasis on state-owned enterprises to enhance our economic vitality.

State-owned enterprises, particularly key enterprises, are the pillar and mainstay of our region's state-sector economy. To build socialism with Chinese characteristics, we must place emphasis on improving state-owned key enterprises, which holds the key to accelerating the establishment of a socialist market economic structure in our region. If our region wants to get a foothold in the nation's fiercely competitive integrated market, the paramount task is to comprehensively improve the competitiveness of our state-owned key enterprises. Since its peaceful liberation, state-owned enterprises in the region's transportation, commerce, service, manufacturing, electric power, and other sectors have made important contributions to developing Tibet's economy, safeguarding the people's livelihood, promoting unity among nationalities, and strengthening border defense. In recent years, our region has adopted a series of measures to deepen enterprise reform, and these measures have produced considerable results. However, for various reasons, many enterprises still lack vitality. We must further deepen their reform to bring forth their strong superiority in the new situation.

The goal and direction of in-depth enterprise reform is to establish a modern enterprise system. Departments concerned must earnestly carry out experimental work in accordance with the state's unified arrangements. To consolidate and develop state-owned enterprises, the key is in successfully defining our industrial policy and in using the market as a guide to explore the road of development and improve their competitiveness so they will be able to stand the market's test. We must be resolved to further adjust our industrial structure, while focusing on improving efficiency. We must adjust the number of existing enterprises and open up new markets in which they may compete. At the same time we must gradually establish an optimal number of highly efficient new-type enterprises engaged in farm and livestock processing, building material manufacturing, mineral processing, forestry products manufacturing, and other undertakings that have markets as well as resources.

Industries possessing necessary conditions may form enterprise groups. We must continue implementing the regulations governing transformation of the operating mechanism; deepen various enterprise reforms; and organically integrate the transformation of the operating mechanism, structural optimization, technological advance, and internal management reform. We must earnestly strengthen the building of leading bodies of enterprises, and work hard to train a contingent of outstanding entrepreneurs who are good at management and operations, and are skillful in operating in the market. We must uphold the factory director responsibility system and bring into play the core role of party organizations in enterprises. We must wholeheartedly rely on the working class. We must pay attention to building teams and groups as well as workers' ranks to fundamentally resolve the problems affecting enterprise vitality. We must step up research in ways that enable state-owned enterprises to compete with collective, individual, private, and foreign-funded enterprises from the same starting line, and to create policy environment and conditions conducive to fair competition. We must adopt measures in all areas to gradually resolve the question of debts owned by state-owned enterprises in the past, and the question of social burdens shouldered by them. We must satisfactorily resolve difficulties encountered by enterprises in reform and production management. Party committees and governments at all levels must pay utmost attention to problems encountered by existing enterprises, practice separation of management at different levels, and give different guidance to suit different conditions. We must organize strong task forces and send them deep down to enterprises to conduct investigation and research. We must develop tactics and measures for each individual factory and enterprise, and work hard to improve their competitiveness. We must revitalize enterprises in the new stage of development so that they will score new, splendid achievements.

While promoting reform of state-owned key enterprises, we must continue perfecting the macroeconomic management system. We must reform the macroeconomic management system to promote enterprise reform, and reform enterprises to further deepen reform of the macroeconomic management system. While focusing on enterprise reform, we must organize well various supplementary reforms, giving special attention to the establishment of a social security system based on old-age and unemployment insurance. While continuing to perfect the commodity market, we must pay attention to cultivating and developing markets for essential production factors to create conditions for the development of enterprises.

We should further deepen reform of the economic structure. Under the general goal of establishing a socialist market economy, we should proceed in a positive and prudent manner to gradually link up with the national economic framework and system. Price reform is the core of the reform of the economic structure. In recent

years, this region has made important progress in the reform of commodity prices. However, in consideration of Tibet's low level of production and backward economy, as well as the fact that the people are not mentally and economically prepared for price adjustment, we are faced with great pressures in carry out the heavy task of price reform. The prices of certain important products, which are linked with the national plan and people's lives, are still to be straightened up. To establish a socialist market economy, we must follow the law of value in dealing with various things. We must firmly deepen reform of the economic structure in order to invigorate the regional economy in the course of reform. Meanwhile, we must also take the local situation into consideration to avoid social discord so as to realize a stable transition from the old system to the new one.

In the course of establishing a socialist market economy, we have to adjust the interests among the state, various localities and consumers. We should strengthen our propaganda, clearly explain the goal and significance of reform to the broad masses of cadres and people, enable the masses to correctly understand the benefits of reform, and win understanding and support from the masses. In particular, we must do patient and meticulous ideological work when we carry out price reform which is related to the masses' interests. We should enhance the masses' psychological tolerance to ensure the smooth implementation of various reform measures.

6. We should open up wider to the outside world, and use the open policy to promote economic development.

In recent years, Tibet has made relatively big progress in opening up to the outside world. However, the work is still not adequate in terms of range and quality. It was pointed out at the Third Central Forum on Work in Tibet that many shortcomings in Tibet were due to the closing of the region. This is an astute summation of the cause of slow development in this region and also shows important ways for future development. We must resolutely open up wider to the outside world, break away from the state of closure, establish links with other localities within the country and the international market, and adopt good points from other places. This is the key to vigorously promoting economic development in Tibet.

We should resolutely overcome the closed-door thinking and eliminate xenophobia. We should remove regional blockades and trade barriers. We should expand cooperation and exchanges with other places in the country in an open and welcoming attitude, and the spirit of mutual benefit. We should let more people of the autonomous region go outside and let more outside people enter Tibet. We should ship more commodities to other places and ship in more commodities from other places. We should disseminate more information to the outside and transmit more information of other places of the country to this region. We should accelerate the pace of reform and opening up in Tibet, and fully and properly take

advantage of the state's various preferential policies toward Tibet. We should strengthen our financial knowledge and have the courage to borrow money for economic operations. We should fully take advantage of the opportunity of aid projects provided by various fraternal provinces and municipalities to strengthen economic cooperation with those places, expand lateral ties, and promote friendly contacts so as to add vitality to the development of the local economy. We should encourage and support economic entities and individuals from other parts of the country to enter and set up economic undertakings in Tibet. We should supplement each other's advantages and coordinate with other places in economic development, and establish a close link between Tibet's economy and the national economy.

Vigorous efforts should be made in developing foreign economic relations and trade. Foreign trade enterprises must readjust their operation strategy, change their ideas about business operations, base their strategy on local realities, and set their eyes on the international market. Key ports should be made the channels for border trade and trade by people living on the frontiers; efforts should be made to develop frontier trading points and nurture and develop the border trade market.

Tibet has great potential for developing tourism. We must improve the overall level of service and the overall capacity to receive tourists, develop new tourist spots, attractions and courses; incrementally develop a comprehensive tourism network; and bring about the development of related industries.

It is necessary to step up economic cooperation and exchange with the outside world, improve the investment climate, step up propaganda, and widen the channels for attracting and utilizing foreign funds. We must promote development by opening up wider to the outside world and usher in a new situation in Tibet of fast and dynamic growth of all businesses.

7. We must create a good social environment for economic development by sticking to the principle that both the material and spiritual civilizations should be promoted in real earnest, and neither aspect should be neglected.

Economic development is the sole central task. Our mission is to lead and see to it that the broad masses of people will, as a result of development of production, prosper and secure a well-off livelihood at an early date. For this reason, we must see to it that there is political and social stability, that people are free from anxiety, and that there is a peaceful social environment. We are, however, faced with disturbances from secessionist forces at home and abroad. The Dalai clique is bent on its scheme of splitting the motherland. In disregard of the happiness of Tibetan people and the prosperity of Tibet, they have tried, either overtly or covertly, to impede or sabotage the region's economic development. We must remain highly alert. In our work, we must on the one hand pay attention to political stability and the

anti-secessionist struggle and, on the other hand, implement the policy of reform and opening up to invigorate the economy and accelerate development. We must closely integrate these two tasks and stick to the principle that both the material and spiritual civilizations should be promoted in real earnest and neither aspect should be neglected in order to preserve social stability and ensure the smooth progress of reform, opening up, and economic construction.

The Central Committee has already clearly spelled out the major policies and principles in regard to the maintenance of stability. The autonomous regional CPC committee has also made meticulous arrangements in this regard. The prefectures, cities, counties, and various departments must firmly carry them out. Meanwhile, we must enhance our understanding of the importance of maintaining stability in line with the guidelines of the third forum on Tibet. We must have a clear understanding of the source and factors of Tibet's instability and get a clear idea of who are the saboteurs of stability, and who are the targets of our struggle. The struggle against the Dalai clique is the central task of our efforts to maintain stability in Tibet. This struggle against the Dalai clique is the main manifestation of class struggle in Tibet at the present stage. As long as the Dalai clique does not abandon its secessionist activities, we will resolutely oppose it until final victory is achieved. There must be no ambiguity whatsoever on this point. We must strengthen our own ranks, do a good job among the people, resolutely crack down on activities aimed at splitting the motherland or other serious offenses, foil the Dalai clique's secessionist scheme, and resolutely repel all types of interference. Experience has demonstrated that the more resolute we are in the struggle against the enemy, the easier it will be for the masses to draw a line of demarcation, and the easier for us to deal with unexpected incidents. In this way, the people's interests will be better protected, we can keep the initiative in the anti-secessionist struggle in our hands, and Tibet's long-term stability can be more reliably guaranteed.

8. We must further emancipate our minds and change our way of thinking.

In the past few years, the leadership of the autonomous region has stressed on many occasions the necessity of emancipating our minds. However, judging from the present situation, this problem has not been completely solved. Today, it is necessary to once again stress this necessity in order to ensure the all-round implementation of the guidelines of the Third Central Forum on Work in Tibet. Emancipating the mind and seeking truth from facts constitute our party's ideological line. Emancipating the mind complies with seeking truth from facts. Emancipating the mind means that our thinking should comply with the developing and changing objective reality, with the reality of reform and opening to the outside world, and with the reality of accelerated development. Emancipating the mind and seeking truth from

facts require that we adapt ourselves to the new situation, study the new problems, and explore new ideas. If we continue to stick to outmoded conventions of the past, all undertakings in Tibet will cease to advance, thus seriously hampering the realization of the goal of economic development decided by the Central Committee. Under the present circumstances, emancipating the mind means we should transform our way of thinking and the way we act with Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and with the guidelines of the Third Central Forum on Work in Tibet. Is it conducive to accelerating Tibet's development and is it conducive to helping the people of Tibet to prosper—this should be made the norm guiding our action, and the criterion for judging right and wrong. We should not pay lip service to emancipating the mind. To determine to what degree emancipation of the mind has been carried out, we should find out whether development in a locality has been accelerated and the people there have prospered. Cadres at all levels, shouldering the heavy responsibility assigned them by the times, should break away from the mental state of being inert, being content with things as they are, and sticking to old ways; do away with the idea of asking for or depending on assistance; emancipate themselves from the fetters of the old type of economy that was closed to the outside world; work, blaze new trails, and advance boldly; carry out their official duties in the service of the people; and make new contributions in the large tide of reform, opening to the outside world, and the modernization drive.

III. Strengthening and Improving the Party's Leadership over Economic Work and Striving To Improve the Style of Work/

At present, reform, opening to the outside world, and economic construction in our region have entered a phase of development. To accelerate reform, opening to the outside world, and economic construction, to begin a new page in the modernization of Tibet, the land that sits on top of the world, and to realize the grand objective set by the third forum on work in Tibet, it is imperative to strengthen the party's leadership over economic work, improve the methods of work and the style of work, and ensure the all-round implementation of the party's basic line. The autonomous regional party committee has made a comprehensive plan for strengthening party building. We should carry out this plan conscientiously. Now I would like to stress the following points:

First, we should vigorously use the theory of building socialism with Chinese characteristics to arm the whole party. In the new historical period, the theories which we are familiar with and the way of thinking and the way of work which we are accustomed to can no longer meet the needs of social practice, and some of them are hampering us from accelerating development. Whether the party can heighten its ability to guide economic work depends on whether it can master, thoroughly and systematically, the scientific theory of building socialism with Chinese

characteristics. We should make organizing comrades of the whole party to study Comrade Deng Xiaoping's theory a fundamental and long-term task. This theory should be used to guide economic construction, reform, and opening to the outside world and to accelerate economic construction. We should transform the thorough studying and understanding of the guidelines of the Third Central Forum on Work in Tibet into an ideological weapon for accelerating development and safeguarding stability. At the same time, we should conscientiously study economic theories, acquire management expertise and scientific and technological knowledge, and constantly raise our ability to guide economic work.

Second, we must firmly foster the thinking of making economic construction the central task. The key to steadfastly adhering to the party's basic line lies in steadfastly persisting in making economic construction the central task. We must persist in making economic construction the central task whenever and wherever we are in Tibet, and wholeheartedly do a good job in carrying out economic work. It is hard to avoid the occurrence of interference under the complicated and changeable international environment at present. Whenever we encounter interference, we must eliminate it in a timely manner; however, our resolve to persist in making economic construction the central task must not waver in the slightest degree. Economic construction is the central task of not only governments and enterprises, but the whole party. It is necessary for party organizations at all levels to attach importance to conducting study of and leading the economic work, study the blueprint and plan for reform and development in their respective localities, explore ways for economic development suited to the actual conditions of their respective localities, decide on the industrial structure for their respective localities, study policies and tasks that expedite the development of the productive forces through scientific and technological advance, open doors wider to the outside world, make decisions on major economic construction projects, and truly implement the party's basic line in a down-to-earth manner.

Third, it is necessary to assign more responsibilities to cadres and train various qualified personnel. Party and government cadres at all levels shoulder an important mission to accelerate economic development and successfully carry out all of this year's economic work in Tibet. It is necessary to define responsibilities, establish an incentive mechanism and a restrictive mechanism, comprehensively implement a system under which cadres at all levels are responsible for attaining given objectives in management and a system of job responsibility, and improve a leading group appraisal and supervision mechanism which focuses on leaders' moral character, ability, industriousness, and achievements so as to create an environment for doing jobs and pioneering evolutionary undertakings. Appointing cadres on the basis of their achievements in their official careers is a concentrated manifestation of the CPC's purpose of serving the people wholeheartedly. We must appraise

cadres' merits, faults, rights, and wrongs, and decide on their promotion or demotion and renewal of appointment or removal on the basis of their achievements in their official careers. We must make efforts to train a large number of various qualified personnel who have a good grasp of science, economy, management, and laws, and who have both the ability and political integrity to provide a strong guarantee in terms of organization for accelerating economic development.

Fourth, it is necessary to intensify the anticorruption drive. The fundamental policy of being strict with party members and fighting corruption has already been clearly defined. Party committees at all levels must conscientiously implement the plans drawn up by the central authorities and regional party committee for the work to fight corruption; adhere to the principles "resolutely, in a down-to-earth manner, and over a protracted period of time"; and make unremitting efforts to intensify the anticorruption drive. We must continue to treat the investigation of law-breaking and discipline-violating cases as a breach in the anticorruption drive. We must strictly enforce political discipline and eliminate hidden political perils to guarantee the organizational purity of the party. We must pay attention to comprehensive management of public security to gradually eradicate corruption and the soil upon which unhealthy practices subsist, and to guarantee the smooth progress of reform, opening up, and economic construction in Tibet.

Fifth, it is necessary to strengthen the building of grass-roots organizations in a down-to-earth manner. The Third Central Forum on Work in Tibet laid emphasis on strengthening the building of grass-roots organizations. The regional party committee attaches great importance to it and has made careful arrangements. It is necessary for all areas to conscientiously carry it out. We must build a good leading group and, in particular, select good secretaries who are able to lead the masses to resolutely implement the party's line, principles, and policies, resolutely fight splittism, and maintain stability. We must train a good contingent. Communists must be able to give play to an exemplary vanguard role, and cadres an exemplary leading role. We must choose the correct road for economic development, make full use of local advantages, and speed up the pace of peasants' and herdsmen's shaking off poverty and setting out on the road to prosperity. We must establish a good business operation system and improve it to strengthen the vigor of economic development. We must improve the good management system to guarantee the effective operation of our work. We must strengthen the cohesive force and the combat effectiveness of grass-roots organizations.

Sixth, it is necessary to step up the building of socialist spiritual civilization and provide correct media guidance. It is necessary to accelerate the development of education, science, technology, culture, public health, radio and television broadcasting, and social undertakings, satisfy the people's material and cultural needs, and

bring about all-around social progress. Tibet is in a grim [yan jun 0917 1498] situation in which we are defending the unification of the motherland and opposing split. At the same time, during the course of reform, opening up, the shift from the old to the new structure, and the readjustment of relationships among various interests, some new circumstances and new problems will happen due to the backward economy and low degree of social development in this region. It is of immediate importance to have correct media guidance and use it in guiding the people. The present media guidance work calls for us to occupy all media with the guidelines of the Third Central Forum on Work in Tibet, strive to create strong media guidance, and make the general public opinion truly conform to the guidelines of the forum. We should comprehensively and thoroughly publicize the guidelines of the Third Central Forum on Work in Tibet and the guidelines of the Sixth Enlarged Plenary Session of the Fourth Autonomous Regional CPC Committee. We should clearly convey the party's principles and policies to the masses, so that they will know what must be implemented, what must be vigorously advocated, what is prohibited, and what must be resolutely opposed and combated, so that the broad masses will realize the consistency between the party's interests and their own interests. In this way, we will be able to bring into play the positive factors in all quarters and work hard with one heart and one mind to create a happy life. We should give play to our party's political superiority, do good, patient and meticulous ideological and political work, and resolve contradictions before it is too late, so as to reassure the people and stabilize the situation.

Seventh, it is necessary to seriously study the situation of the autonomous region and its prefectures, cities, counties (cities) and work in a creative way. Leaders at various levels should know the situation in their locality and department, thoroughly analyze the strength and potential of local economic development, formulate effective measures, bring their own strength into full play, create new possibilities for further economic growth, explore new ways of development with distinct features, and bring about rapid economic development.

Eighth, it is necessary to improve our work style and perform actual deeds. The region's tasks of development and reform are very arduous this year. Whether actual deeds are performed or not will have a direct bearing on Tibet's economic development. Actual deeds are a criterion for appraising the party organizations at various levels with respect to their adherence to the party's basic line and their job performance. We should resolutely oppose the bad practice of merely printing the party's principles and policies on paper, performing only lip service, and working in a perfunctory manner. It is necessary to go deep into the realities of life, go down to the grass-roots units, conduct study and investigation there, oppose superficiality, and stop fraud. It is necessary to improve working efficiency and seek good working results. The whole Tibet region should truly go into action, tell the truth, make actual efforts, perform

actual deeds, do solid work in a down-to-earth way, and ensure that all work is being done.

Comrades, we have an excellent historic opportunity for reform and development at present. We must work in accordance with the guidelines of the Third Central Forum on Work in Tibet, firmly adhere to the party's basic line, seriously carry out the guidelines of this conference, work hard with one heart and one mind, and constantly push this region's economic and social development onto a new stage.

North Region

Hebei's Cheng Weigao on Party Building Work

SK3001051495 Shijiazhuang HEBEI RIBAO
in Chinese 20 Dec 94 p 2

[Excerpts of speech by Cheng Weigao, secretary of the Hebei Provincial CPC Committee, at the Eighth Plenary Session of the Fourth Hebei Provincial Party Committee on 20 December]

[FBIS Translated Text] The Fourth Plenary Session of the 14th CPC Central Committee is an important meeting with overall, practical, and long-term significance held during the critical moment of our country's reform, opening up, and modernization drive; the strategic principle of the party Central Committee on upholding the policy of "taking a two-handed approach and being tough with both"; and the important step to lead the entire party to continuously conduct the construction of the "new and grand project." With the guidance of Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the guidelines of the Fourth Plenary Session of the 14th CPC Central Committee, and on the basis of comprehensively and profoundly analyzing the situation at home and abroad, of the party's current situation, and of the great historical task which the party is shouldering, the "decision" adopted by the Fourth Plenary Session of the 14th CPC Central Committee is an important policy decision formulated by pooling the entire party's wisdom and a programmatic document for strengthening and improving party building during the new period. Thus, we should conscientiously study and carry out the guidelines of the "decision." This will produce a great and far-reaching influence of upholding the party's basic line, guaranteeing a long period of order and peace in the party and state, enhancing the leadership and administrative level of the party, strengthening the party's cohesion and fighting force, and giving better play to the role of the party as the leading core in the great undertakings of building socialism with Chinese characteristics.

1. We Should Correctly Recognize the Situation of Party Building in Our Province and Define the Main Tasks Facing Us.

Since the Third Plenary Session of the 11th CPC Central Committee—especially in recent years in the course of

the grand practice of reform, opening up, and the modernization drive—party organizations at all levels across the province have done much solid and effective work in strengthening the building of ideology, organizations, and work style. Party organizations at all levels and the broad masses of party members and cadres have made significant improvements in upholding the mass line of proceeding from reality in doing everything and seeking truth from facts; have made overall plans in line with the party's basic line; and have noticeably strengthened consciousness in taking economic construction as the central task. The consciousness of keeping the same pace with the party Central Committee in terms of ideas and politics, and of obeying and safeguarding the general tasks of the entire party, has been further enhanced. The construction of the party's organizations has been strengthened; gratifying steps have been taken in the reform of the cadre system; the impetus of the anticorruption struggle has been increased; noticeable results have been made in building party discipline and an honest administration; and the unity of leading bodies at all levels has been remarkably strengthened. In brief, since reform and opening up, party building work across the province has been developmental and progressive, and the main trend inside the party has been good. However, we should also soberly notice that our party is facing the severe test of holding office and working for reform, opening up, the development of the market economy, and the world's great historical changes. If we want to establish ourselves in an invincible position—just like what the Fourth Plenary Session of the 14th CPC Central Committee has pointed out—we should be good at recognizing, strengthening, and enhancing ourselves. For the time being, the current situation in building ideology, organizations, and the work style of party organizations at all levels in our province, in the political and professional quality of the leading bodies at all levels, and in the ranks of party members and cadres is not in conformity with the arduous and grand historical mission that time has entrusted to us and with the ardent expectations of the broad masses of people. This situation is caused by the following: First, some party members, especially leading cadres with party membership, have failed to fully understand the importance and urgency of integrating reality with theoretic study, and have the tendency to occupy themselves with vocational work and social intercourse and with slackening their efforts in theoretic studies. They have failed to understand the market economic pattern as well as modern science and technology, so their ideology is lagging, their thinking is narrow, their reform consciousness is weak, and their vigor for opening up is low. That is why they feel they cannot adapt themselves to the circumstances of the rapid development of the market economy and the frequent emergence of new situations and issues. Second, the problem of impure ideologies and work styles within the party is prominent. Third, leading bodies of some districts and units with weak organizational ideas have failed to exert enough efforts to persist in carrying out democratic centralism. Fourth, the work

of building grass-roots organizations is weak. Fifth, some leading bodies are irrational in their knowledge and age structures. Sixth, some districts and units have serious unhealthy trends in recruiting personnel. The existence and development of these problems are greatly affected by the situation of failing to make the party manage party affairs, to strictly manage the party, and to use law and discipline to manage the party in some districts and units and to manage the situation in which the principal leaders have engrossed themselves in vocational work and neglected politics, thus rendering their political ability weak. In analyzing the party's present situation, it is wrong to disregard the main trend and achievements; we will make mistakes if we fail to underestimate existing problems and adopt effective measures to resolve them. Therefore, we should realistically strengthen the consciousness of being concerned about the party; should fully recognize the importance and urgency of strengthening party building; and, in line with the guidelines of the Fourth Plenary Session of the 14th CPC Central Committee, should make unremitting efforts to do a good job in resolving the problems existing in party organizations of our province at all levels in an effort to make party building across the province have a new look and attain a new level.

The "decision" adopted by the Fourth Plenary Session of the 14th CPC Central Committee explicitly pointed out the current overall objectives and tasks of strengthening party building, that is: in a situation marked by the abrupt changes in the international arena and the great change in China's reform, opening up, and modernization drive, we should build the party into a Marxist ruling party that is armed with the theory of building socialism with Chinese characteristics; that wholeheartedly serves the people; that is completely consolidated in terms of ideology, politics, and organization; that can bear various risks; and that is always in front of the times. In order to realize this fundamental objective and task, we should regard the three constructions of the party's ideology, organization, and work style as a "new and grand project" and successfully carry them out. We should properly handle the relationship between "overall arrangements" and "key links"; should give overall consideration to the central arrangements on the construction of the party's ideology and work style as well as the demands of the "decision" adopted by the Fourth Plenary Session of the 14th CPC Central Committee; and, while carrying out various party building tasks, should regard organizational construction as the "key link" and devote great efforts to firmly and successfully carry it out. These are the important guidelines that should be followed in the course of grasping party building work at present.

The party's ideological and organizational construction, and the building of work style, are related to, infiltrate, and complement each other. No matter which construction we grasp, we must depend on and will become involved with the construction of other aspects. In grasping the party's ideological construction at present,

we should further and deeply study Volume 3 of the *Selected Works of Deng Xiaoping* as well as the first and second volume of the new edition. We should persist in arming all party members, especially party-member leading cadres, with Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics. In the course of study, we should exert efforts in the following three aspects in line with the demands of Comrade Jiang Zemin. First, we should concentrate our efforts to conscientiously study the original work of Comrade Deng Xiaoping and comprehensively and systematically grasp the scientific system of the theory. Second, we should concentrate our efforts on the scientific attitude and creative spirit of persisting in emancipating the mind and seeking truth from facts. Third, we should exert our efforts to use the theory to study and resolve the current major issues. Only by deeply studying the theory of building socialism with Chinese characteristics can we further enhance the consciousness of carrying out the party's basic line and resolutely push forward various reforms that comply with the new socialist market system. At the same time, we should continuously strengthen the construction of work style; develop the party's "three major work styles"; and resolutely, unambiguously, and unswervingly conduct the anticorruption struggle and honest administration in a deep and lasting manner. We should further grasp the work of keeping leading cadres honest and self-disciplined, of investigating and handling major and serious cases, and of checking unhealthy tendencies and achieving realistic results. We should use the results of the anticorruption struggle and the construction of an honest administration to promote reform, opening up, and the healthy development of the socialist market economy. Judging from the current situation of party organizations and the need to develop situations and tasks at present, and in line with the guidelines of the "decision," we should regard the three issues of upholding and perfecting democratic centralism, of strengthening and improving the construction of the party's grass-roots organizations, and of training and selecting leading cadres as the priorities, and we should pay attention to grasping the party's organizational construction. If the three links of the party's organizational construction can be successfully carried out, Hebei's party organizations at all levels, under the leadership of the party Central Committee with Comrade Jiang Zemin as the core, will be able to do a better job in Hebei's various tasks with a more vigorous outlook and with a more resolute and unified step, and will make due contributions to allowing the entire party and the entire country to successfully enter the 21st century.

2. We Should Uphold and Perfect Democratic Centralism and Always Keep the Vitality and Fighting Force of the Party Organizations.

Democratic centralism is the Marxist principle of building the party that our party consistently upholds; it is the fundamental organizational system and the leadership system for keeping the party's vitality and fighting

strength. Party organizations throughout the entire province at all levels, especially local party committees at and above county level, should deeply study and comprehend the "decision" of the central authorities, should act in line with the demands of the "decision," and should conscientiously grasp the implementation of democratic centralism.

First, we should devote great efforts to developing inner-party democracy and to realizing the goal of making policy decisions democratic and scientific. Party organizations at all levels, especially party committees at and above county level, should actively explore, establish, and perfect the mechanism and procedures of policy making that comply with the modern policy making of combining the efforts of leaders, specialities, and the masses. Before making a strategic decision on major issues, party committee leaders should personally attend to the work and organize the force of the relevant departments to deeply go into the reality and to the masses to conduct investigations and studies, extensively collect, arrange, and analyze the relevant information and material; through in-depth investigation and consideration, they should establish the objectives of policy decision and the plans for resolving problems; after the initial policy decisions and plans have been made, they should conscientiously and extensively solicit the opinions of relevant specialities and comrades who have practical work experience; and for policy decisions involving the masses and party organizations at low levels, they should solicit the opinions of party organizations at the next level. After various draft policy decisions have been compared and analyzed, and tendentious opinions have been offered, party committee members should jointly discuss them and make the final decision. Some major issues which have a bearing on the overall situation of local work must be submitted to the plenary session, or even to the party congress, for discussion and decision. After the policy decisions have been made, we should conscientiously grasp the implementation, supervision, and feedback of the policy decisions, and should resolutely prevent and overcome the situation of discussing something without reaching a decision, or the situation of failing to carry it out conscientiously and seriously or of falling short of the requirements, or of not carrying it out after reaching the decision. Party organizations at all levels, especially party committees at and above county level, should act in line with the above-mentioned basic demands; should study and define which major issues should be submitted to party committees for making policy decisions in line with the procedures, and which major issues should be submitted to the plenary sessions and party congresses for making discussions and decisions; and, on the basis of summing up experiences, should formulate systems and carry out procedures for making democratic and scientific policy decisions, and use the systems to guarantee the correct formulation and implementation of policy decisions.

Second, we should realistically guarantee the democratic rights of party organizations and members, and should fully boost the enthusiasm of party organizations at all levels as well as the broad masses of party members. Important the matters and documents should be relayed to party members first before they are promulgated to the masses. District and units should extensively solicit the opinions of party members before they make strategic decisions on major issues that affect the overall situation and interests of the broad masses of party members and people. Party organizations at all levels should conscientiously organize party members to study the party's documents and to lead everybody in actively participating in the study and discussion of the party's line, guiding principles, and policies. Party organizations at all levels should actively mobilize and organize party members to participate in the electing, appraising, and supervising of the party's leading cadres. In general, it should be insisted that the committees of general party branches and of party branches of rural grass-roots party organizations should be elected by meetings of party members if no special circumstances occur. The plenary sessions of local party committees at and above county level should be held at least twice a year; the number of plenums may be increased if necessary. Standing committees cannot take the place of plenary sessions in making strategic decisions on major issues. At present, it is quite prevalent that local party committees at and above the county level have held meetings of secretaries to exchange views with the principal leading members of party committees before making strategic decisions on major issues. This is quite advantageous to holding a successful standing committee meeting. But it should be explicit that the meetings of secretaries are not for policymaking, so they cannot take the place of the standing committees in making policy decisions. This is an important principle for guaranteeing the democratic rights of standing committees and party committees, for strictly carrying out democratic centralism, and for boosting the enthusiasm of various members of the standing committees.

Third, we should resolutely safeguard the centralism and unification of the party, and guarantee the impeded implementation of government orders. In democratic centralism, we should exercise centralization and unification on the basis of developing democracy in line with the "four subordinations" stipulated by the party constitution. Of the "four subordinations," the most important is that the entire party should be subordinate to the central authorities. Resolutely safeguarding the authority of the party Central Committee with Comrade Jiang Zemin as the core, and guaranteeing the impeded implementation of the central government's ORDERS, are the chief conditions for safeguarding the party's centralism and unification; the fundamental guarantee for carrying out the party's line, guiding principles, and policies; and the highest interest of the entire party and the people of the entire nation as well as a political discipline of prime importance. For this, party organizations at all levels

across the entire province, especially local party committees at and above the county level, should have a clear-cut and firm stand in anything that involves the major issues of the entire party, the entire country, and the entire situation. We should be ideologically and politically united with the party Central Committee at any time and under all circumstances. We can neither feign compliance nor carry on localism and selfish departmentalism. We should conduct criticism and education in time for those who fail to resolutely and conscientiously carry out the unified central government's orders. We should also seriously investigate and handle those who violate and resist the unified central government's orders and cause serious consequences. In the course of our work, we should persist in integrating national interests with local interests; responsibility for local people with responsibility for the people of the entire nation; the practice of implementing the central guidelines with the practice of having our feet firmly planted in the local reality; and creative work with strict obedience to the party's discipline. Only in this way can we really do a good job in obeying the party Central Committee and in safeguarding the authority of the party Central Committee.

Fourth, we should further uphold and perfect the system of combining the collective leadership with the division of labor and individual responsibility. This system is the specific goal of democratic centralism in activities led by party committees. We should properly handle the following four kinds of relationships in carrying out the leadership system. First, the relationship between centralization and decentralization of state power. All major issues, major work plans, recommendations, appointments, removals, awards, and punishments of cadres within the limits of authority, as well as the important issues involved with the interests of the masses and social stability, should be collectively discussed and decided by party committees in order to prevent arbitrary decisions by individuals or a few people. At the same time, we should also prevent the situation that members of party committees fail to actively participate in collective leadership work, and even regard individuals as the representatives in charge of the interests of a certain work so they only care for the interests of the part and not the whole. For matters that should be decided collectively by the party committee in line with the principle that whoever is in charge takes responsibility, we should carry out the strict responsibility system and should prevent using the collective leadership as an excuse to shift matters which should be shared and undertaken by individuals to the collectives. Second, the relationship between the division of labor with individual responsibility and mutual cooperation. The division of labor with individual responsibility means that a member of a party committee should be responsible for his work, but he should also cooperate and coordinate with other members in order to do a good job in the work he is in charge of. Therefore, any member of a party committee should not only independently and boldly

take responsibility, but should also conscientiously cooperate with each other and work together with one heart. Party members should talk face to face with each other if they have anything to say, but should avoid gossiping behind their backs. Understanding, support, and friendship are the most important of all. Third, the relationship between secretaries and party members. Secretaries and party members are equal in party committees; they are not in a relationship between those who lead and those who are led. However, secretaries as "leaders" who assume the main responsibility within the collective leadership should set an example in carrying out democratic centralism. Secretaries should be the "leaders" and not the patriarch; they should air their views freely, give full play to democracy, and be good at gathering correct opinions. Party members should have the courage to make statements and should make genuine statements, pay attention to respecting the secretaries' correct opinions, and safeguard the secretaries' nucleus position in the party committees. Fourth, the relationship between the majority and the minority. Party committees should make policy decisions on major issues by voting on the basis of full discussions and in line with the principles that each person casts one ballot and that the minority is subordinate to the majority. No party committee member has the right to change the collective decision. The individual and the minority are allowed to hold different opinions, but they should unconditionally serve the collective decision and actively carry them out.

Fifth, we should conscientiously grasp measures for guaranteeing the implementation of democratic centralism. We should act in line with the study and implementation of the "decision" to guarantee the implementation of democratic centralism. The priority inside the party is that the members of the party and government leading bodies at and above the county level should receive an in-depth reeducation on democratic centralism so their various erroneous ideologies and behaviors that affect democracy, centralization, and the unity of the leading bodies can be corrected and their recognition can be united with the guidelines of the "decision" made by the central authorities. At the same time, party committees at all levels should strengthen the building of systems, should formulate work regulations for the party committees, should make the principle of democratic centralism specific and standardized, and should make it workable. Party committees and discipline inspection commissions at all levels should strengthen supervision and inspection on the implementation of democratic centralism. We should uphold the principle that everyone is equal in front of the system, should commend those who do a good job in the implementation and criticize and educate those who fail to do their job well, and should enforce party discipline upon those who have serious problems. We should really attain the goals of observing regulations if there are any, of strictly enforcing regulations, and of punishing those who violate regulations.

3. We Should Realistically Grasp the Construction of the Party's Grass-Roots Organizations and Give Full Play to Their Fighting Bastion Role.

The crux of grasping the construction of the party's grass-roots organizations is that party committees at all levels should strengthen the consciousness and urgency of grasping the construction of the party's grass-roots organizations. In strengthening the construction of rural grass-roots organizations, county party committees are the crux and township party committees should assume direct responsibility. In strengthening the construction of urban grass-roots organizations, city party committees are the crux and party committees of districts and trades should assume direct responsibility. How the work is done for some time to come should be included in the main content of evaluating the work achievements of party committees and secretaries of party committees of cities, prefectures and counties.

A. The construction of the party's grass-roots organizations should be conducted in close accordance with the implementation of the party's basic line and serve the party's central task. Rural grass-roots organizations should regard the work of leading the broad masses of peasants to comprehensively develop the rural economy and of promoting the construction of becoming better-off as the basic tasks. Rural grass-roots organizations should grasp party building in line with the goal of making the people better-off and should make joint efforts to firmly grasp the construction of rural grass-roots organizations, the spiritual and material civilization, and the work of realizing the goal of making the people better-off. In line with in-depth reform, party organizations of enterprises should transform their management mechanisms and successfully carry out production, management, and the construction of spiritual civilization. In line with reform, development, and stability, party organizations of schools should strengthen moral education; strengthen patriotic education; nourish "socialist people of a new type with ideas, ethics, culture, and a sense of discipline"; and build an "educationally strong province" while carrying out their work. In line with the principle of making science and technology serve economic construction, party organizations of scientific and research units should fully boost the enthusiasm of scientific and technological personnel, should achieve more scientific and technological results, and should train more talented personnel. Party organizations of other grass-roots units should promote and guarantee the accomplishment of their own units' tasks through actively conducting work, and should use the actual results of accomplishing tasks to examine the results of building party organizations as well as the fighting strength, whether high or low, of party organizations.

B. We should use the spirit of reform to study the new issues under the new situation; should rationally readjust the organizational establishment; should improve the relationships; and should define the functional role. In

the setup of rural grass-roots party organizations, peasant party members should be generally organized into small party groups comprised of nearby villagers' groups or party members' responsible areas. Party branches of villages which have more party members, relatively developed township enterprises, and a clear division of labor between workers and peasants may be turned into general party branches or party committees; party members who are engaged in farming or industry should respectively participate in the party branches of their work units. We should strengthen the management of floating party members who leave their lands and hometowns, should establish party branches or party small groups in line with their trades or work districts, and should make them subordinate to the leadership of the relevant party organizations in the locality. Party members who temporarily leave for other districts for less than six months should regularly return to their units to participate in the party's activities, or regularly submit written reports or material to party organizations. The newly built economic organizations should correspondingly catch up with party building work. In principle, township, private, three types of foreign-funded, and share-holding cooperative enterprises should establish party branches if they have more than three party members; if less than three, they should unite with other units to establish a party branch. At the same time, we should distinguish the situation, define the subordinate relationship of different types of party branches, and realistically strengthen the ability to lead and manage them.

We should improve and define the functional role of various grass-roots party organizations. In rural areas, township party committees and village party branches should take the entire responsibility for all the work in their own townships and villages, and must play a leading role. Party organizations of state-owned enterprises and enterprises whose shares are controlled by the state should continuously act in line with the regulations of the party Central Committee and give play to their political core role. Their main tasks are as follows: They should guarantee and supervise the implementation of the guiding principles, policies, laws, and regulations of the party and the state in enterprises; should participate in the enterprises' major policymaking, including the personnel management work; should strengthen the ideological, organizational, and work style construction of party organizations; and should give full play to the fighting bastion role of party organizations and the exemplary and vanguard role of party members. They should also lead trade unions, the Communist Youth League [CYL], and other mass organizations of enterprises; grasp the ideological and political work of enterprises and the construction of a spiritual civilization; and strive to cultivate a contingent of staff and workers with ideals, ethics, culture, and a sense of discipline that meet the needs of developing the modern enterprise system. What should be emphasized is that in the process of

giving play to their political core role, party organizations of enterprises should regard the work of actively supporting and assisting factory directors (managers) to exercise their functions and powers in line with the law as their bounden duty. Party-member plant directors (managers) should strengthen the ideas of party spirit, and should resolutely transform the party's proposition and intention into administrative and enterprise behaviors. In principle, party organizations of collective enterprises should carry out their work in the light of the functional role of party organizations of state-owned enterprises. For party organizations of enterprises whose shares are purchased but not controlled by the state and private enterprises, in addition to grasping their own construction and the work of the mass organizations and the CYL, their main functional role is to guarantee and supervise the implementation of the guiding principles, policies, laws, and regulations of the party and state; to safeguard the legal rights and interests of staff and workers; and to promote the spiritual civilization construction of enterprises. Party organizations of foreign-funded enterprises and joint investment and cooperative enterprises whose shares are controlled by foreign firms should give play to the political core role of Chinese staffs. Party organizations of scientific and research institutes, schools, organs, neighborhoods, and other grass-roots units whose functions have been clearly and definitely stipulated in the past should continuously carry them out.

C. We should regard installing good leading bodies and selecting "good leaders" as the key issue of strengthening the construction of the party's grass-roots organizations. If we can do a good job in resolving this issue, it will be easier for us to resolve other issues of building grass-roots party organizations. At present, the leading bodies of some rural grass-roots party organizations are in a weak, slack, and paralytic state. For this reason, the provincial party committee has called on party committees of various cities, prefectures, and counties to arrange the problems of rural grass-roots party organizations in the order of priority; make plans; and use three years to rectify the rural party branches which are in a weak, slack, and paralytic state. For districts with more problems, we should send competent work contingents to help them install party branches and select good "leaders." If no suitable person can hold the post in the villages, we may select good leaders by means of taking those "sent by higher authorities" and those "returned from other localities." While paying attention to grasping the construction of village party branches, we should establish and perfect the autonomous organizations of villagers, collective economic organizations, and organizations of CYL, Women's Federation, militia, security maintenance, and family planning; we should promote the smooth development of various tasks. We should devote great efforts to enhancing the overall quality of the grass-roots cadre contingent, especially members of the leading body. It is not enough for secretaries of village party branches to be just and

honest; they should also possess the organizational and leadership ability to make the masses lead a better life. In line with this guiding ideology, and in addition to readjusting personnel who should be readjusted, we should make up our mind to do a good job in the systematic training and various specialized training of secretaries of rural party branches in an effort to make them change the ideology; increase knowledge; enhance ability; and have ability, confidence, and measures to lead the masses to realize the goal of making people better off in life.

For the time being, some of the urban grass-roots party organizations are also in a weak, slack, and paralytic state. Provincial party committee has called for efforts to use two years to rectify party branches of organizations, enterprises, institutions, neighborhoods, and other grass-roots units, and prevalently enhance the quality of the leading bodies of party grass-roots organizations in urban areas through study and training. Various cities should also make arrangements for this.

D. We should strengthen the education and management of party members, should enhance the quality of party members, and should successfully carry out organizational development. In order to carry out the central plans for some time to come, we should use three years to extensively and deeply conduct an the study of socialism with Chinese characteristics and the party constitution among party members of the entire province.

We should also pay attention to educating party members on the basic knowledge of the socialist market economy and the fundamental knowledge of modern science and technology. Urban grass-roots party organizations should strengthen the training of skills related to the posts of party members so as to enable all of them to become the backbone and good examples of production and work. Rural grass-roots party organizations should grasp the training of practical technology of party members in an effort to enable the broad masses of rural party members to give play to their exemplary and leading role in the activities of "learning science and technology, entering the market, and attaining the goal of making the people better off." In districts with appropriate conditions, we should enhance the political, cultural, and professional qualities of rural reserve grass-roots cadres by conducting two-year regular secondary school education in a planned manner.

We should successfully carry out the work of recruiting party members in line with the guiding principle of upholding the criterion, guaranteeing quality, improving the structure, and being cautious in development. Particularly, we should pay attention to recruiting party members from young workers, peasants, and intellectuals as well as people on the forefront of production and work. The crux of successfully carrying out this work is to grasp the criterion, recruit party members in a planned manner, and avoid recruiting party members according to seniority and the order of their arrival. For

rural areas with weak party strength and having not recruited party members for a long time, for enterprises invested in by foreign businessmen, and for newly established economic organizations, party committees at higher levels should send competent cadres to guide and help them to do a good job in the recruitment of party members. Grass-roots organizations at all levels should strengthen the management of party members, properly handle unqualified party members, and resolutely clear up corrupt and morally degenerated ones.

E. We should keep our eyes on the long-term plans, have a foothold, and make unremitting efforts to carry out the construction of the party's grass-roots organizations. The construction of the party's grass-roots organizations is dynamic and changeable, so it is impossible to resolve the problems for a long time to come just by grasping the work once or twice. Therefore, while grasping grass-roots party building work, we should establish the idea of doing the work on a long-term basis and overcoming the ideology of holding good for all time. In the course of carrying out this work, we cannot grasp the work for a while, then slacken our efforts for a while. In line with the new situations emerging in the construction of grass-roots organization, we should continuously put forward new demands and unceasingly, repeatedly, and deeply grasp the work. We should make unremitting efforts to grasp rectification and improvement so as to enable grass-roots organizations to maintain an exuberant vigor and fighting strength.

4. We Should Comprehensively Enhance the Quality of the Existing Leaders and Cadres and Strive To Train a Batch of Qualified Transcentury Leading Personnel Who Can Assume Important Responsibility.

In line with the guiding principle of making the ranks of cadres "more revolutionary, younger in average age, better educated, and professionally competent," as well as the principle of recruiting cadres with both ability and political integrity, we should train and select good party and government leading cadres at and above the county level, especially transcentury young cadres who can assume important responsibility. This is an important issue with a bearing on the future and fate of the party and the state; a major plan of fundamental importance for upholding the party's basic line for 100 years without wavering, and guaranteeing a long period of order and peace in our country; and the crux of successfully carrying out the party's organizational construction. Party committees at all levels should regard this major affair as the key task of this new and grand project, and should firmly and successfully carry it out.

A. In strict accordance with the five demands set forth in the "decision," we should train and cultivate a contingent of qualified politicians who are loyal to Marxism. Provincial-level leaders and cadres should take the lead in setting examples, and should consciously temper themselves in strict accordance with the five demands; leading cadres at and above the county level should also

exert their efforts to do the work in line with the five demands. In the course of comprehensively tempering and improving themselves in line with the five demands, leading cadres at and above the county level should pay special attention to enhancing the level and ability of observing and handling issues from the view of politics and strategy. This is a major issue which Comrade Deng Xiaoping and General Secretary Jiang Zemin have reminded us on several occasions to pay attention to. Politicians should first understand politics and possess a very strong political sensibility and insight while engaged in reform and construction in the complex international environment. With regard to issues having a bearing on the overall situation, the political direction, and the cardinal questions of right and wrong, they should always maintain a firm political stand and a sober mind; should be good at considering and solving party issues from the view of the overall situation in the course of doing practical work; and should be good at considering and solving economic and social issues from a political point of view. Only by so doing can they distinguish the direction and grasp the overall situation under the new situation of unceasing development and change.

B. We should comprehensively implement the principle of making the ranks of cadres "more revolutionary, younger in average age, better educated, and professionally competent"; should further renew the ideas; and should add impetus to the work of training and selecting young leading cadres. We should adhere to the principle of making the ranks of cadres "more revolutionary, younger in average age, better educated, and professionally competent" as well as put revolutionization in the first place. With regard to recruiting cadres who have both ability and political integrity, we should first emphasize political integrity. People who are not qualified in politics can neither be listed as targets of training nor be promoted to leading posts. We should regard the cultivation and selection of young cadres as an urgent task, and successfully carry it out. The crux is that party committees at all levels should emancipate the mind, renew ideas, and add impetus to the work of training and selecting young leading cadres. Only by breaking the bondage of the outmoded ideas of selecting the cadre according to seniority, demanding perfection, and giving consideration to all can we really establish the guiding ideology of selecting cadres by their party spirit and real achievements, and of daring to use and promote those young cadres who have good political quality and prospects for cultivation and development, and who make the large number of excellent and young cadres come to the fore. Judging from the entire province, we should organize a batch of young cadres at the provincial party school for systematic training. Every year, we should organize a batch of young cadres at grass-roots units to take posts and temper themselves, and especially go to the environment with arduous conditions or complex situations to experience trials.

We should organize a batch of young cadres to annually take posts in the developed coastal provinces. At the

same time, every year we should also organize a batch of young cadres in places outside the provincial territory to study, visit, inspect, and investigate in an effort to broaden their fields of vision, understand the world, enrich experiences, and widen knowledge. In short, we should carry out the work of training the "four batches of young cadres" in a planned manner, bring the cultivation and education of excellent and young cadres into orbit, and carry out the task of cultivating and training transcency successors in places where needed.

C. We should uphold the correct cadre line, oppose the unhealthy trends in recruiting personnel, and guarantee that the principle of recruiting cadres with both ability and political integrity can be realistically carried out. We should rely on education, discipline, systems, and supervision to realistically guarantee that the party's cadre line and policies can be carried out. For this reason, we should adhere to the following points. First, we should uphold the criterion of recruiting cadres with both ability and political integrity; should select personnel in line with the real work achievements; and should avoid selecting personnel according to our like or dislike, by our feeling of gratitude or resentment, or the level of intimacy or estrangement. The ability and political integrity of cadres are shown mainly through their real achievements in carrying out the party's basic line; therefore, upholding the criterion of recruiting cadres with both ability and political integrity, and paying attention to the real achievements of implementing the party's basic line, are identical. We should judge the real achievements in an objective, comprehensive, and developmental manner; we should not claim the collective credit for the individual, and not pay attention only to the real achievements of economic construction at the expense of the real achievements in spiritual civilization and other aspects, and to "short-term behavior" at a time or of a case at the expense of long-term effect. No matter if they are local cadres or cadres from outside areas, and regardless of the level of intimacy or estrangement, any cadre who has both ability, political integrity, and extraordinary achievements in his official career should be promoted and given important assignments. On the contrary, no matter what supporter he leans on, potential backers he solicits, and interceders he invites, they should all be ignored. In front of the principle of recruiting cadres with both ability and political integrity, we should not recruit cadres who have bad ideological consciousness and serious individualism, and who use their powers to seek personal gain; cadres who practice fraud, make false and exaggerated reports, fish for fame and compliments, flatter and fawn upon others, contend for credit, shift their blame to others, and ask for official posts; and cadres who have excellent character but lack leadership ability, who only make mediocre achievements in their official career and affect the party's undertakings adversely. Second, we should adhere to the principle of respecting social public opinions and fully follow the mass line, and should listen to the opinions of a small number of people or select personnel from a

small group of people. Upholding the criterion of recruiting cadres with both ability and political integrity is in conformity with paying attention to the real work achievements of cadres as well as the social public opinion on cadres. We should enhance the degree of participation of the people and the masses, and regard the support and concurrence of the masses and social public opinion, whether good or bad, as the indispensable basis of selecting and appointing cadres. Cadres who are not supported by the masses should not be promoted; some of them should be expelled from the leading bodies or demoted. For cadres who have good ability and political integrity but cannot win the understanding of the masses for a short while because of various reasons, they should not be appointed unless they do a good job in getting the approval of the masses. Third, we should regard the process of being tempered in grass-roots organizations as an important condition for appointing leading cadres at and above county level. In principle, people who have no experience in grass-roots leadership work cannot hold leading posts as chiefs of the county party and government organs, and of the bureaus and departments of prefectures and cities. For some time to come, we should pay attention to selecting leading cadres from the districts and departments that take major steps in reform and opening up, do a good job in the construction of spiritual and material civilizations, and make rapid progress in various tasks. Those who are promoted to leading posts at and above the director level in organizations at and above the city (prefectural) level should possess more than two years of grass-roots work experience. Fourth, we should act according to principle, make decisions through collective discussions, and not let one person have the final say. Fifth, we should fully respect the opinions of the top leaders in readjusting and installing county-level leading bodies. The secretary of the county party committee is the most responsible person for the success or failure of the county's work. Under the premise that the secretary of the county party committee must be competent and qualified, and in order to make the secretary's responsibility unite with his power, party committees at higher levels should fully listen to and respect the opinions of the secretary of the county party committee while organizing, building, and readjusting county leading bodies. However, fully listening to and respecting the opinions of the county party committee secretary does not mean forming an individual cabinet. The secretary of the county party committee can fully reflect opinions, or can even nominate someone as a member of leading bodies. But the decision for the nomination should be made after the party committee at the higher level has strictly inspected it, fully listened to the opinions of the masses on whether the nominee is publicly approved and qualified to hold the post, and conducted collective discussions. D. We should accelerate reform of the system of selecting and appointing party and government leading cadres, and should pay great attention to grasping the mechanism of incentive and restraint, with the perfection of the target responsibility system and the evaluation of the real

achievements playing a dominant role. This year, the provincial party committee has promulgated the "method for the trial implementation of the incentive and restraint mechanism for principal leading cadres of county (city, district) party and government organs"; the method for evaluating achievements in the official careers of leading cadres of cities, prefectures, departments, and bureaus will also be issued very soon. In line with the above-mentioned document guidelines, cities and prefectures at all levels should firmly grasp the work of studying and formulating the incentive and restraint measures as well as the ways for evaluating the achievements in the official career of the deputy heads of county (city, district) party and government organs, and of leading cadres subordinate to their work departments, and strive to comprehensively promote these ways and measures among the party and government leading cadres at and above the county level next year. We should establish evaluation organs, with organizational and personnel departments as the main bodies, and with the participation of various relevant departments; we should also conduct evaluations annually. In the course of evaluation, we should persist in combining the work of comprehensively evaluating morality, ability, diligence, and achievements with paying attention to evaluating the real work achievements and organizational inspections with the masses' appraisal, and use the evaluation results as the main basis for promoting or demoting leading cadres. As soon as those cadres who seek honor through practicing fraud and deception, who make false and exaggerated reports, and who adopt improper means in the course of evaluation are found out, their awards, treatment, and political honor should be canceled at once, and they should be punished in line with party and political discipline according to the merits of the case. In brief, only through just selection and appointment, scientific training and tempering, enthusiastic care and nourishment, and strict evaluation and supervision can we gradually establish a personnel recruitment mechanism of vigor and vitality that allows excellent and talented personnel to come to the fore.

5. We Should Uphold the Principle of Making the Party Manage Party Affairs, and Strengthen and Improve the Leadership of Party Building Work.

Our party has always emphasized the principle of having the party itself manage party affairs and run the party strictly. Under the new situation, the more we conduct reform and opening up and accelerate economic development, the more we should comprehensively strengthen party building as well as control and manage party organizations well, and make them have a true communist outlook.

A. We should concentrate our attention and effectively and realistically carry out the guidelines of the Fourth Plenary Session of the 14th CPC Central Committee in places where needed. At present, we have clarified the objectives, tasks, and specific measures for this "new and grand project." The crucial issue involved now is to carry

them out. We should change the "weak" status of party building work into a "tough" one, and prohibit any idea and practice which will "soften" the party's leadership, "diminish" the construction of the party itself, and "weaken" the party's role. Party committees at all levels should successfully carry out the following four tasks. First, we should include party building on the important agenda, and clarify and carry out the responsibility. Second, we should include party building as the target management of various districts and units. Third, we should include party building as an important content of supervision, inspection, and evaluation work. Fourth, we should include party building work as an important content of the system that has lower levels report to higher levels.

B. We should properly handle the relationship between party building, the general tasks of the entire party, and economic construction. For next year's work, central authorities have called for efforts to continuously grasp the general tasks of the entire party and the entire country in "seizing the opportunity, deepening reform, expanding opening up, promoting development, and maintaining stability." The general tasks are the specific manifestation of the party's basic line; therefore, only by grasping the general tasks can we guarantee the implementation of the party's basic line and persist in regarding economic construction as the central task. We should avoid and overcome not only the tendency to set the work of grasping the party building against the work of grasping the "central task," but also the situation of using economic construction to take the place of the party's self construction. In order to properly handle the relationship between the work of grasping party building and the work of grasping the "central task," we should combine party building work targets with those of local economic development in the course of practice and in line with the demand of economic construction task, and should clearly and definitely formulate the work of party organizations. The work of evaluating party building should be combined with that of evaluating economic development; therefore, in the course of inspecting the work achievements of local party organizations, we should pay attention not only to the progress of the construction of the party itself, but also to the progress of economic construction and other tasks. Thus, we can make party building work and economic work promote each other and develop side by side.

C. We should adhere to the principle of strictly managing the party, and should guarantee the party's advanced nature and purity. Leaders should take the lead in emphasizing "strictness" in party building work. We should make strict demands on party organizations and members, regard the party constitution as the criterion, and strictly manage and supervise the behavior of party organizations and members in accordance with the nature that the party is the vanguard of the working class and that the communists should serve the people wholeheartedly. We should strictly observe the party's political

discipline, organizational discipline, and relevant regulations; continuously rectify the party organizations; enforce party discipline; and purify the party contingent. We should resolutely get rid of corrupt elements, criticize and educate unqualified party members, persuade those who fail to respond to education to withdraw from the party, strictly handle party members who make mistakes, and enable them to draw lessons. We should act in line with the principle of strictly managing the party and making party organizations ideologically united, strict in discipline, consolidated in organization, and united in action; we should give better play to their leading core role in promoting the party's various undertakings.

D. On the basis of upholding and developing the good traditions of party building work, we should be bold in making innovations, study new situations, solve new issues, and explore new ways. We should not only carry forward good traditions, but should also make innovations in grasping party building. We should deeply go into the reality to conduct investigations and studies as well as to experience and observe the party's situation; should sum up experiences; and should improve the content of activities and ways and means of work of party organizations.

We should be bold in breaking with ideas and methods which practice has proved to be not in accord with the new situations and tasks, and should make party organizations at all levels full of vigor. We should dig into some difficult points and hot issues which we have encountered in the course of carrying out party building work, should conscientiously conduct study and explorations, and should unceasingly enhance party building to a new level.

E. We should build a dedicated and powerful party work contingent. Party organizations at all levels should conscientiously organize the broad masses of party affairs workers to maintain close ties with the reality of work and ideology; do a good job in studying the "decision"; enhance the sense of honor and mission of being engaged in this "new and grand project"; provide conditions for their study and tempering through various channels; and unceasingly enhance their quality in an effort to make them adapt to the need of party building work under the new situation. They should actively cultivate and select a batch of comrades who are in the prime of life to carry out party building work, and make enterprise party affairs workers enjoy the same treatment and economic life as the administrative management personnel at the same level. The broad masses of party workers should be loyal to the party's undertakings, arm themselves with advanced theory and knowledge, and make new contributions to party building undertakings with a high degree of responsibility.

Comrades, at present we should strive to do a good job in party building under the current international and domestic situation. It is an arduous but glorious mission

that time has entrusted to us. A good opportunity for strengthening party building is now facing us. The party's basic theory, line, and policies have offered a powerful guarantee for unifying the party's ideology and action; the ideology of Comrade Deng Xiaoping on the construction of the ruling party has enriched and developed the ideology of Mao Zedong on party building theory and defined an orientation for strengthening and improving the party building; the abundant practice of reform, opening up, and the modernization drive have instilled new vigor into the party and set forth new demands on strengthening party building. Since the beginning of the 14th National Party Congress to the Fourth Plenary Session of the 14th CPC Central Committee, the overall arrangements for the construction of the party's ideology, organization, and work style have been made; the broad masses of cadres and people inside and outside the province also have an eager desire to do a better job in party building. Therefore, we must grasp the good opportunity of strengthening party building, strive to do our work well, unceasingly blaze new trials and forge ahead, and struggle to build the "new and great project" more brilliantly and energetically as well as realize the objective of building an economically strong province and making the people's life attain a level of moderate prosperity.

Northwest Region

XINHUA Reports Ningxia's 1994 Economic Growth

OW3101144595 Beijing XINHUA in English
0116 GMT 31 Jan 95

[FBIS Transcribed Text] Yinchuan, January 31 (XINHUA)—The Ningxia Hui Autonomous Region in northwest China achieved sustained and rapid economic growth in 1994, with the gross product rising eight percent, according to the regional government.

A local official said the achievement was scored by the five million Han and Hui (Moslem) people in Ningxia by promoting unity, maintaining social stability, stepping up the reform and opening wider to the outside world.

The revenue of the Ningxia Autonomous Regional Government jumped 21 percent last year, the official said.

By overcoming the effects of serious drought, local farmers harvested 2.01 million tons of grain in 1994, second only to a previous record year, he said.

Township-run factories, a major source of funding for agricultural production and of incomes for rural residents, manufactured four billion yuan-worth of goods last year, up 31 percent over 1993.

The average per-capita annual income of local rural residents shot up 36 percent last year to 910 yuan.

The official said that Ningxia's industrial production began to speed up in July 1994, with its growth rate

rising to 11 percent in the second half of last year from five percent in the first half.

The region's industrial output value was estimated at 12.4 billion yuan in 1994, up nine percent over the previous year.

The reform of its foreign trade system has enabled Ningxia to expand trade with the rest of the world, the official said.

The region handled imports and exports totalling 179 million U.S. dollars-worth last year, nearly 25 percent

more than in 1993. Its exports climbed almost 32 percent in 1994 to 146 million dollars-worth.

Ningxia had approved the establishment of 351 foreign-funded businesses by the end of last year.

The official said that preparations are now under way for the undertaking of a number of priority projects, including the construction of the Hedong Airport, the expansion of the Qingtongxia Aluminum Plant and the installation of a synthetic ammonia plant with an annual production capacity of 300,000 tons.

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